Annual Report 2015

Raiffeisen BANK

Annual Report 2015

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Raiffeisen Group – Monetary values in HRK millions

	2015	Change	2014	2013
Income statement				
Net interest income	1,033	(12.61%)	1,182	1,203
Net commission income	462	12.41%	411	372
Trading profit (loss)	152	(21.65%)	194	150
Administrative expenses	(1,231)	(4.28%)	(1,286)	(1,230)
Profit before tax	(182)	(139.14%)	465	384
Profit after tax	(150)	(141.21%)	364	295
Consolidated profit	(156)	(143.21%)	361	309
Balance Sheet				
Loans and advances to banks	955	(33.12%)	1,428	1,622
Loans and advances to customers	19,626	(9.89%)	21,780	23,844
Deposits from banks	246	(18.54%)	302	543
Deposits from customers	23,640	0.48%	23,527	21,672
Borrowings	4,251	(20.47%)	5,345	6,923
Equity	4,326	(14.37%)	5,052	5,467
Balance-sheet total	35,058	(2.31%)	35,887	36,152
Regulatory own funds				
Own funds	4,749	(2.78%)	4,885	5,003
Total capital requirement	1,969	(4.93%)	2,071	3,399
Core capital ratio	15.89%	(1.21 PP)	17.10%	17.66%
Total capital ratio	19.30%	0.43 PP	18.87%	17.66%
Performance				
Return on equity (ROE) before tax	(4.06%)	(12.93 PP)	8.87%	7.61%
Cost/income ratio	61.86%	2.27 PP	59.59%	58.40%
Earnings per share (HRK)	(43)	(143%)	100	85
Return on assets (ROA) before tax	(0.51%)	(1.80 PP)	1.29%	1.03%
Provisions for possible loan losses/risk – weighted assets	13.65%	1.81 PP	11.84%	9.03%
Resources				
Employees as at reporting date	2,319	(0.43%)	2,329	2,274
Banking outlets on reporting date	70	–	70	70

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 from the 2015 Annual Report as audited by KPMG, the international firm of auditors.

Last year, Raiffeisenbank Austria's loss after tax was HRK 241 million, while the loss at local Group level was HRK 150 million. However, results during the year moved in a favorable direction. The beginning of the economic recovery had a positive effect on operating conditions in the first half. Despite the loss resulting from the administratively-imposed exchange rate for repayment of CHF loans, operating results were above average on previous years. However, a shock followed in the second half due to the adoption of the regulation on the conversion of loans from the Swiss franc to the euro. Raiffeisenbank Austria created a provision for losses amounting to HRK 617 million resulting from implementation of this conversion. The negative impact of this one-off loss was greater than the positive results of regular operations.

As well as the negative impact of the regulation change with regard to CHF loans, strengthening deflationary pressures affected the operating conditions of the local Group. A fall in consumer prices increased the disposable income of households. However, demand for loans did not increase. Deflation was accompanied by a general reduction in market interest rates, which resulted in some potential borrowers holding back from taking out loans in the expectation of more favorable borrowing conditions in the future.

Croatia's financial markets saw increased liquidity, which strengthened the pressure on declining market interest rates. The deleveraging process of the private sector continued, but both the State and public-sector corporations increasingly borrowed abroad. A greater supply of capital on foreign financial markets, influenced by the expansive monetary policies of the European Central Bank, had a negative effect on the take-up of the banking sector's loan potential. The growth in customer deposits steered banks toward reducing secondary sources of financing, or maintaining high liquidity.

Positive economic developments reduced credit risk. Growth in business activities and employment in the corporate sector resulted in improved collection of claims from customers, reflected in an improved average creditworthiness of borrowers. Regulatory changes with regard to consumer loans had a negative impact on the banks' operational results. Although the class action pursued in the courts by borrowers due to the linking of loans to the franc was concluded with a legally-binding judgment in favor of the banks, a subsequent change in regulations allowed borrowers to retroactively convert loans from franc to euro at the historic exchange rates applicable on the date the loan was taken. In addition to disputing CHF currency clauses, borrowers also disputed the validity of agreements with a unilaterally-variable exchange rate in a class action. After conclusion of the class action, borrowers may seek compensation for any harm in individual cases.

Apart from the negative impacts on the operating results, implementing the conversion of CHF loans took up significant human and technical resources. Hence, development activities in household sector operations slowed in the last quarter, and the perception of a bank with a portfolio of CHF loans hindered sales activities. Competition between banks and the availability of alternative financial services has increased since Croatia's accession to the European Union. Along with faster technological changes, these represent strategic challenges for the operations of Raiffeisenbank Austria and the local Group. The Customer Centricity project, directing all operations to customer needs, was completed in 2015. After the prolonged economic recession, during which the importance of risk management increased, the recovery that is underway demands further strengthening of sales and raising of customer service quality. Adjustment of the product range to the increasing demands of customers was achieved by improving business processes and developing services. Human potential management was enhanced through a system of rewarding and promoting employees, and the continual training necessary to acquire new skills essential for improving the quality of customer services.

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 customers a comprehensive range of financial products and services. The sales network comprises 70 branches and alternative electronic distribution channels. Customers from all sectors have access to competitive products and services. In the corporate sector, the offer of loans from local and international development bank funds was increased, as was support for using European Union funding. Small and medium enterprises are additionally financed within the local Group through factoring services for working capital needs, and through leasing services for fixed-asset investments. Demand for household loans is rapidly changing under the influence of better knowledge of currency and interest rate risks. Demand for fixed-rate kuna-denominated loans is increasing, resulting in structural changes in the loan product range. The announcement of the introduction of a property tax reduced the demand for mortgages. The level of demand for general-purpose loans is stable. These are approved in smaller amounts, with shorter payment terms than for fixed-purpose loans.

In the local Group, the process of integrating the sale of household savings and loan products was implemented. The trend of reducing interest rates on the money markets had a negative effect on the attractiveness of savings and investment products. The reduced yield on instruments of loan capital was positively reflected in the value of pension and investment funds, and so the funds segment of the local Group achieved significant growth.

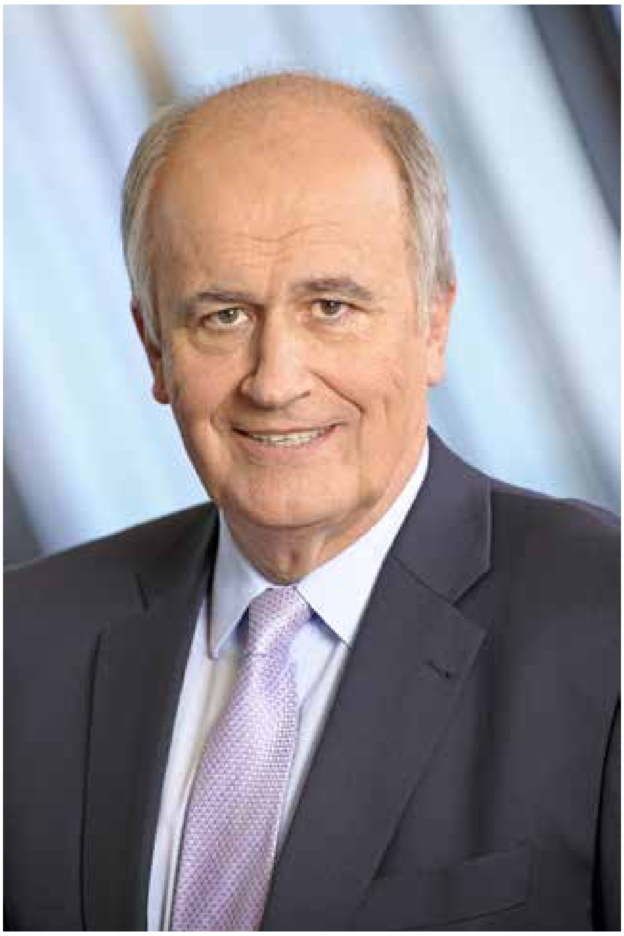
Adaptation of operations to market conditions and customer demands is essential to the achievement of the planned operating results. We use our resources rationally, improving service quality and operational efficiency. Our main goal is to increase customer satisfaction. With the efforts of all employees in our local Group, we are continuing to develop a comprehensive range of financial services. I would like to thank the management and all employees for their dedication to achieving the above goals. Finally, I would also like to thank all our customers and business partners, and express my total 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 2015, Raiffeisen Bank International announced a review of its corporate strategy, which the market received very positively. An emphasis on markets in which RBI can generate sustainable returns due to a strong position is also being welcomed, as is the action taken thus far to achieve these goals. The plan to become a more focused universal bank with strong customer relationships by reducing complexity and risk, as well as through bolstering the capital buffer, is well on track and valued by market participants.



More than ever before, a bank today needs a focus – and RBI's focus is on CEE and Austria. RBI, therefore, had to revisit all operations unrelated to that focus, even when, in some cases, they had been highly successful in the past. Our footprint in CEE was also reviewed at this time. All of this happened against the backdrop of higher regulatory capital ratio requirements, which were taken into account while determining the target CET1 and total capital ratios.

In 2015, RBI significantly strengthened its capital base, with the fully loaded CET1 ratio standing at 11.5 per cent at year-end, and also achieved a consolidated profit of 379 million. The primary reason such a positive result was lower net provisioning for impairment losses. Furthermore, general administrative expenses were reduced by 4 per cent compared to 2014, in line with RBI's cost cutting initiative.

As far as Raiffeisenbank Austria d.d. Zagreb is concerned the results were impacted by the one-off negative effect of a regulation change allowing borrowers in CHF to retroactively change the currency of their loans. The consequence of this change in regulation was a reduction in Raiffeisenbank Austria's assets. We believe that these changes breach the investor rights that are the subject of a bilateral agreement on the protection of investments concluded between the Republic of Croatia and the investor country.

Excluding the losses caused by the conversion of CHF loans, the results achieved from ordinary activities were at the level of previous years. Demand for loans and other financial services has not grown despite the end of the prolonged economic recession. As well as customer aversion to borrowing, the decline in investment income was also impacted by the trend of lowering interest rates that has spread from the Eurozone to connected markets, including Croatia.

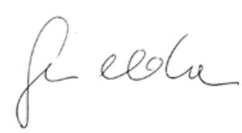
Our success in the sale of services was driven by our implementing of a process of streamlining operations, in which the customer is always the center of our focus. Business processes were improved, and the efficiency of distribution channels was enhanced, as was innovation of services in line with our customers' identified needs. Timely streamlining to meet our customers' needs in a highly competitive market was implemented in accordance with the highest operating standards within the RBI group. Synergy was generated by the transfer of experience, knowledge and skills within the group through applying best practice. Operational support is thus continuously improving in order to meet rising operational and regulatory demands.

The economic improvement favorably affected credit risks. Provisions for potential losses were reduced, excluding the negative impact of the conversion of CHF loans. This also allowed a loosening of restrictions in investment policy, which was characterized by risk management in recessionary conditions.

The losses resulting from the conversion of CHF loans have had no significant impact on the capital of Raiffeisenbank Austria and the local Group. Additionally, some changes have been implemented in the capital structure. The reduction in share capital was offset by an instrument of subsidiary capital amounting to HRK 380 million. As well as a reduction in asset risks, a high level of total capital adequacy of 19 per cent at local Group level was maintained.

I would like to take this opportunity to thank all employees of Raiffeisenbank Austria d.d. Zagreb 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

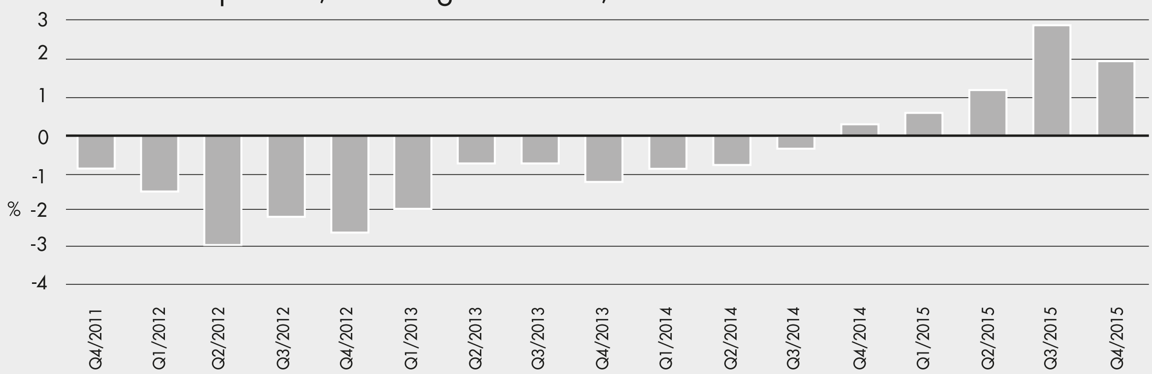
Economic review

The global economy last year will be remembered for the marked divergence of the monetary policies of the world's two largest central banks. Six years after the Fed began its expansionary QE program, the ECB decided to take the same measures to mitigate the risk of increasing deflation, and stimulate more rapid economic growth. In January 2015, the ECB decided to begin the purchasing of sovereign bonds as part of a program of so-called quantitative easing. However, even after this unconventional ECB program started, the inflation rate in the Eurozone did not show signs of acceleration. To the contrary, as a result of the sharp fall in the price of crude oil on the global market (by almost 50 per cent), average consumer prices in the Eurozone stagnated on an annual level. Without doubt, 2015 was also a year of major challenges that tested the economic and political stability of the European continent: the Greek crisis, growing geopolitical risk with regard to countries in the East, the surprising decision by the Swiss central bank that led to the strong appreciation of the franc against the euro, and finally the uncontrolled wave of migrants that added to the pressures on the already fragile economic recovery of EU region countries.
Croatia somewhat benefited from the problems in competitor tourist destinations and finished the year with a record tourist season that had synergy effects on the rest of the economy.
The close of the year saw divergent moves by the central banks on both sides of the Atlantic. Specifically, the ECB decided to broaden its measures of expensive monetary policy (reducing overnight rates while extending the QE program until the end of March 2017). On the other side, at a meeting in December, the Fed decided to tighten its low-interest-rate policy, and for the first time since 2006 decided to raise the range for determining the reference interest rate by 25 bp. This move ended seven years of zero interest rates, while anticipating a gradual normalization of monetary policy. Regardless of the increased risk of a global slowdown (especially in the Chinese economy) and rising uncertainty on the financial markets, the decision to normalize interest rates resulted from the fact that the world's largest economy has achieved recovery (recording real growth of 2.4 per cent in 2015), causing a noticeable decline in the average unemployment rate, which fell to a pre-recession level of 5.3 per cent.

Macroeconomic indicators

After six years of recession, 2015 finished with positive economic growth. Real GDP grew by 1.6 per cent from 2014, primarily as a result of the recovery of Croatia's main external trading partners, and the excellent tourist season. Growing at a double-digit rate of 12.1 per cent annually, exports of goods in 2015 made the greatest positive contribution to the growth in GDP which, along with a significant rise in exports of services (6.4 per cent), resulted in a positive contribution to net foreign demand. Consequently, a positive contribution to growth also came from domestic demand, mainly spurred by a growth in personal consumption which (after three consecutive years of decline) recorded real growth of 1.2 per cent annually. As well as the relief to personal income caused by tax changes and the absence of inflationary pressures, this was certainly also the result of the prolonged tourist season and slowing of negative labor-market trends. Although the average unemployment rate fell for the second consecutive year, this does not completely reflect the structural improvements on the labor market, which continues to be characterized by low employment and a steady decline in the working-age population. Otherwise, last year was also noted for the dynamism of economic migration, and nearly 20 per cent more people left the

Gross domestic product, annual growth rates, real in %



Source: CBS, Economic RESEARCH/RBA

unemployment records due to taking up jobs abroad than in 2014.

Furthermore, despite the expected contraction in State spending (in the context of the need for greater fiscal consolidation on the expenditure side), 2015 actually saw real growth of 0.6 per cent in this component of GDP. On the other hand, growth in investment was encouraging, having risen by 1.6 per cent in real terms after a decline in 2014. The greatest contribution to GDP growth came from the manufacturing (up 3.7 per cent), while construction saw a decline for the seventh consecutive year (0.6 per cent annually).

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

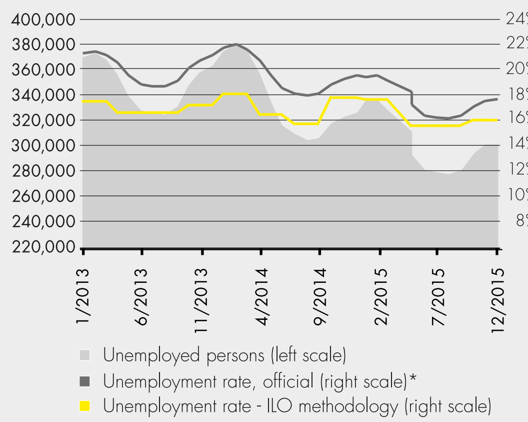
Source: CBS, Economic RESEARCH/RBA

There was a negative inflation rate (0.5 per cent) in 2015 for the second consecutive year, which is also the lowest level since the implementation of the Stabilization Program in 1993. The fall in consumer prices was mainly the result of imported deflationary pressures, and the absence of positive inflation rates had a favorable impact on increasing real income and consumption. Since Croatia is a net importer of energy, the global fall in oil prices was reflected as a positive supply shock, and it statistically softened the reported trade deficit (which grew by 2.8 per cent on an annual level, reaching almost EUR 7 billion). For the third consecutive year, Croatia closed the year with a record high current account surplus (5.2 per cent of GDP). Other than a record inflow of foreign currency due to the good tourist season, this achievement also partly resulted from the banks' losses caused by the enforced CHF conversion. At the same time, the exchange rate of the kuna against the euro continued to be stable. While the kuna weakened almost 11 per cent against the Swiss franc, at the year end the EUR/HRK exchange rate was 0.3 per cent lower than 2014. This halted the gradual slipping of the average EUR/HRK exchange rate on an annual level going back to 2010. Consequently, growth of the reported gross foreign debt was statistically tempered, amounting at the end of December to EUR 45.5 billion, or 103.7 per cent of GDP, reflecting not only the high proportion of the State's foreign borrowing alongside a trend of deleveraging in the financial sector, but also the increasing debt of non-financial corporations seizing the opportunity for cheaper borrowing abroad.

Fiscal and monetary movements

Fiscal activity last year was overshadowed by the intensive events on the political scene due to the focus on the parliamentary elections in 2015. Apart from the budget revision in September, immediately after the extremely close election results the technical Government adopted a series of decisions on borrowing and issuing state guarantees, but also on temporary financing for the first quarter of 2016.

Number of unemployes and registeres unemployment rate

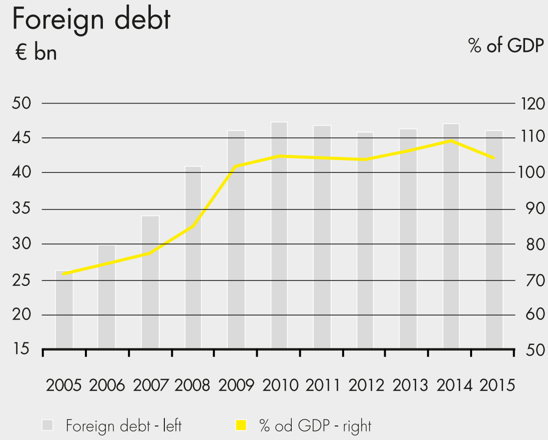


Source: CBS, CES, Economic RESEARCH/RBA

* series is broken as of Jan 1st 2015 (due to the new methodology)

The good tourist season was mainly responsible for the solid gains to last year's budget (especially VAT and excises) that, along with expenditure affected by low consumption in the final (post-) election quarter, resulted in a lower fiscal deficit than initially expected. The latest data shows that (according to ESA 2010 methodology) the general government deficit last year amounted to HRK 10.7 billion, falling to a level of 3.2 per cent of GDP. Consequently, general government debt reached HRK 289.7 billion, or 86.7 per cent of GDP at the end of the last year.

Foreign debt



Source: CBS, Economic RESEARCH/RBA

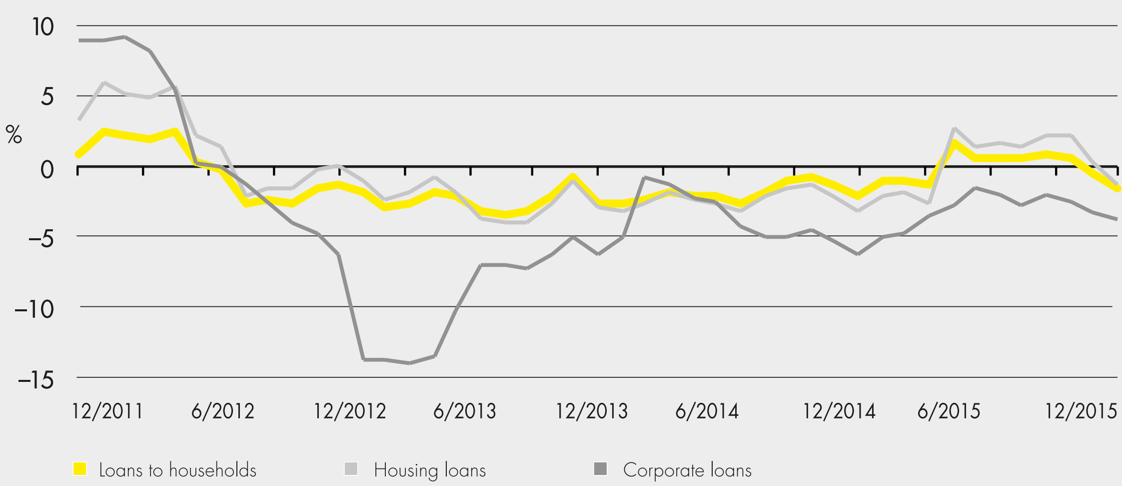
The rising public debt during the year was also accompanied by a correction to the credit outlook by the rating agencies (Fitch and S&P) from stable to negative, indicating the unsustainable dynamic of this trend.

Of the more significant institutional changes, it is important to mention the separation of the Croatian Health Insurance Institute from the single single treasury account, which increased the problem of fiscal non-transparency (analytically consistent inter-year comparisons were prevented, precluding an assessment of the policies implemented). The key findings of the European Commission at the close of the year warned of the need to consolidate public expenditure significantly more quickly and deeply in order to reduce the danger of a threatened snowball effect with regard to rising interest payments, which exceeded HRK 11 billion last year.

The one-off loss due to the enforced CHF conversion, amounting to two years' worth of the banks' gross profits recorded in the previous year, resulted in a reduction in the capital adequacy of the banks to 20 per cent. However, along with the slight economic recovery, the long trend of growth in the banks' non-performing loans was halted.

As a response to increased uncertainties on the financial market, the Croatian National Bank maintained the expansive character of monetary policy. Consistent in its policy of preserving a stable exchange rate (via currency interventions), it again conducted operations on the open market through weekly reverse repo auctions, leading to high liquidity for the entire financial sector.

Loans of the banking system, annual changes in %



Source: CNB, Economic RESEARCH/RBA

Summary of macroeconomic indicators for the period from 2011 to 2015

	2015	2014	2013	2012	2011
GDP & Production					
Gross Domestic Product, % (constant prices)	1,6	-0,4	-1,1	-2,2	-0,3
GDP at current prices (EUR millions)	43.921	43.045	43.516	43.959	44.737
GDP per capita at current prices (EUR)	10.381	10.156	10.225	10.301	10.451
Retail trade, % real annual changes	2,4	0,4	-0,6	-4,1	0,6
Industrial production, % annual changes	2,6	1,2	-1,8	-5,5	-1,2
Prices, Employment and Budget					
Consumer Prices, %, eop	-0,6	-0,5	0,3	4,7	2,1
%, avg	-0,5	-0,2	2,2	3,4	2,3
Producer Prices, %, eop	-4,4	-3,4	-2,6	6,9	5,8
%, avg	-3,9	-2,7	0,5	7,0	6,4
Unemployment rate (official rate, avg)	17,0	19,7	20,3	19,1	18,0
Unemployment rate (ILO, avg)	16,3	17,3	17,4	15,9	13,7
Average net wage, in HRK	5.594	5.534	5.515	5.478	5.441
General Government Balance, % of GDP[1]	-3,2	-5,5	-5,3	-5,3	-7,8
Public debt, HRK billion [1]	289,7	284,2	270,9	233,6	216,7
Public debt, % of GDP [1]	86,7	86,5	82,8	70,7	65,2
Balance of Payment and External Debt					
Good's and Services Exports, EUR million	21.991	19.978	18.764	18.315	18.110
% change	10,1	6,5	2,5	1,1	6,5
Good's and Services Imports, EUR million	20.757	19.106	18.573	18.097	18.297
% change	8,6	2,9	2,6	-1,1	6,6
Current Account Balance, % of GDP	5,2	0,9	1,0	0,0	-0,7
Official International Reserves, EUR million, eop	13.707	12.688	12.908	11.236	11.195
Official International Reserves, in terms of months of imports of goods and services, eop	7,9	8,0	8,3	7,5	7,3
Foreign Direct Investment, EUR million [2]	128	2.910	710	1.142	1.017
Tourism – nightstays, % change	7,7	2,6	3,3	4,0	7,0
External debt, EUR billion	45,5	46,7	46,0	45,3	46,4
External debt, as % of GDP	103,7	108,4	105,6	103,0	103,7
External debt, as % export of goods and services	207,1	233,6	244,9	247,3	256,2
Monetary and Financial Data					
Exchange rate, eop, USD/HRK	6,99	6,30	5,55	5,73	5,82
avg, USD/HRK	6,86	5,75	5,71	5,85	5,34
Exchange rate, eop, EUR/HRK	7,64	7,66	7,64	7,55	7,53
avg, EUR/HRK	7,61	7,63	7,57	7,52	7,43
Money (M1), HRK billion, eop	70,7	63,4	57,9	51,9	51,5
% change	11,4	9,6	11,5	0,9	7,3
Broadest money (M4), HRK billion, eop	287,4	273,3	264,9	254,7	246,0
% change	5,1	3,2	4,0	3,6	5,6
Credits, HRK billion	230,0	237,0	240,8	242,1	257,4
% change	-2,9	-1,6	-0,5	-5,9	4,8
ZIBOR 3m, %, avg	1,2	1,0	1,5	3,4	3,2
Treasury bills rate 12m, %, avg	1,5	1,9	2,5	3,9	3,9

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

2015 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 2015 year, were as follows:

Members of the Supervisory Board

Karl Sevelda (Chairman)
Peter Lennkh (Deputy Chairman)
Lovorka Penavić (Member)
Peter Jacenko (Member)
Ferencz Berszan (Member)

Management Board

Michael Georg Müller
(Chairman)

Mario Žižek
(Deputy Chairman until 31st December 2015)

Ivan Žižić
(Member from 1st January 2016)

Vesna Ciganek-Vuković
(Member)

Jasna Širola
(Member until 31st December 2015)

Liana Keserić
(Member from 1st January 2016)

Zoran Košćak
(Member)

Marko Jurjević
(Member)

Chief Executives	Department
Vesna Muratović	Financial Institution and Cash Management
Ivan Žižić (until 31st December 2015)	
Robert Mamić (from 1st January 2016)	Markets and Investment Banking
Lukač Dubravko	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 (until 31st December 2015)	
Ivana Hobolja Škrtić (from 1st January 2016)	CRM and Digital Channels
Ivica Jerkić	Transaction Services

Vision

We will rank as the first bank in Croatia by client satisfaction and employee pride. Our clients will most frequently recommend us to others, and that will form the foundation of our strong market position among leading banks in the Croatian market. The success achieved will continue to spur all employees and shareholders to further reinforce the Bank's role in the Croatian economy.

Mission

We are a highly motivated team of finance professionals who always go a step further so that our clients can be a step ahead in the achievement of their life and business plans.

Our services are based on the experience of our employees, on the European banking tradition and contemporary needs of the bank's clients. We would like our clients to feel the simplicity of doing business with us, as well as the speed and availability of our services during each contact. We listen to and understand our clients and build a partner relationship with them.

We are proud of the success of each of our clients. This is what makes our mission accomplished.

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.

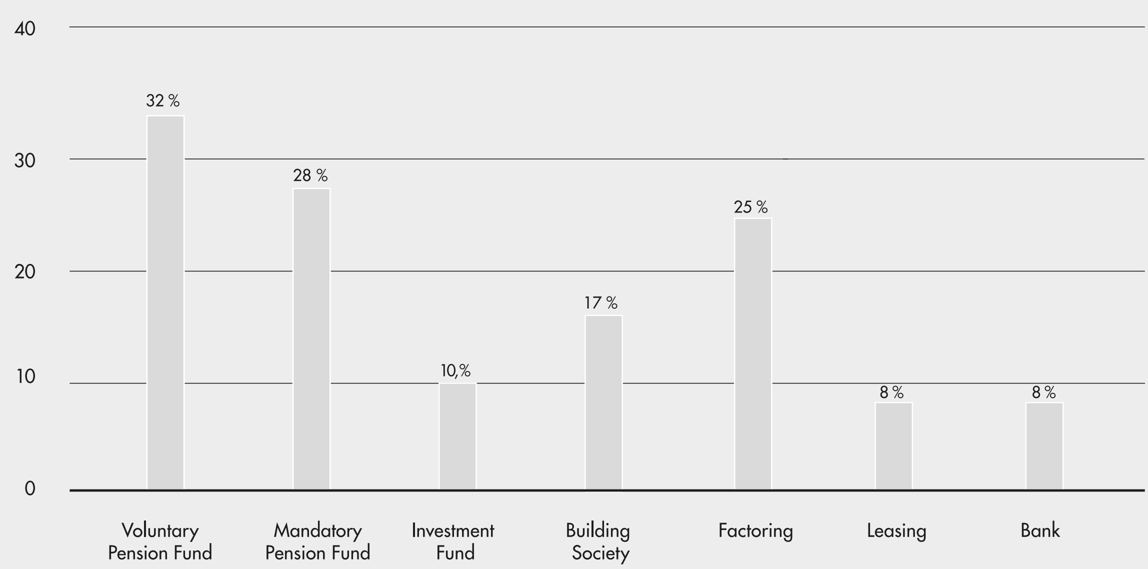
Since 2010, Raiffeisenbank Austria has implemented Lean – the globally recognised corporate culture of business process improvement, which enables achieving maximum service excellence and value for clients while also increasing internal efficiency at the same time. A dynamic organisational development, 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, Raiffeisenbank Austria 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 various financial services. Raiffeisenbank Austria is the fourth largest bank on the market in terms of assets. As well as the commercial bank, the local Group's leasing and factoring companies, building society and investment and pension fund management companies all hold significant market positions.

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 operates with clients on the Croatian market. The local Group's results depend on operating conditions in the financial market and fluctuations in the real economy. Last year, positive changes in the real economy, as well as the negative effects of regulatory changes, impacted on the operating results of the largest banks. After six years of recession, growth in real GDP was achieved, resulting in a halt to negative tendencies in the collection of receivables in the real sector, and consequentially also in the financial sector. In the last quarter, the banks' non-performing loans ratio fell for the first time since 2008.

Operating conditions on the Croatian financial market in 2015 were characterized by high systematic liquidity, increasing supply-side deflationary pressures, a continued reduction in the cost of capital, and administrative interference in the contractual relationships between the bank and its customers. Despite a low level of demand for financial services, a decline in interest income and income for services, administrative interventions in the criteria for calculating loan repayment installments, and the incomplete pre-bankruptcy procedures of some significant debtors, the credit institutions posted positive operating results on the basis of the easing of credit risks in the first half. However, adoption of a regulation on conversion of loans from the Swiss franc to the euro resulted in one-off losses on a systematic level, which exceeded the expected profits several times over, leading the banking system to record a loss of HRK 4.3 billion.

The effect of this change in regulations determined the banks' operations in 2015. On 15 January, the Swiss central bank announced the end of the three-year period during which through interventions on the currency market the exchange rate between the franc and euro was protected. On the very first day following this announcement, the CHF/EUR exchange rate increased by 16 per cent. It reached its highest level after 10 days (an increase of 22 per cent), before gradually reducing to a level of 11 per cent by the close of the year. Debtors with loans in CHF remained exposed to the risk of unexpected fluctuations on the currency markets; hence the Croatian Government proposed an amendment to the Consumer Credit Act. The Croatian Parliament adopted the amendment imposing an administrative CHF/EUR exchange rate of 6.39 to be applied to installment payments of consumer loans during the following 12 months. The amendment to the Credit Institutions Act extended the same level of protection from fluctuations in the CHF/HRK exchange rate to debtors from trade, family-farm and professional activities. The negative exchange rate differences between the administrative and market CHF/HRK exchange rate were passed on to creditors – hence the operating results of the eight largest banks with CHF loan portfolios were negatively impacted. Despite the losses resulting from application of the administrative exchange rate, the banks achieved positive results until September.

In May, the Croatian Supreme Court passed judgment in the class action launched by debtors with CHF-denominated loans against the eight banks. The judgment proclaimed the linking of consumer loans to the CHF/HRK exchange rate to be legal. Debtors, who had been temporarily protected from fluctuations in the CHF/HRK exchange rate by the previous amendments to the Consumer Credit Act and Credit Institutions Act, after the expiry of the 12 months from introduction of the administrative exchange rate, would lose that protection. In September there followed new amendments to the Consumer Credit Act and Credit Institutions Act aimed at permanently removing exchange-rate risks from consumers and other vulnerable groups with borrowings in CHF. This amendment allowed debtors to convert loans approved with a currency clause from CHF to EUR at the historic rate on the date the loan was taken. This retroactive alteration of the currency of CHF-denominated loan contracts required a new installment payment plan allowing customers to deduct their unpaid debt on the basis of the change in the CHF/EUR exchange rate, while allowing them to calculate overpayments on loan installments paid during the period from the receipt of the loan until the date of conversion, i.e. until 30 September 2015. On the other hand, the creditor bank had to reduce its asset value by the same amount and post this as a loss during the period.

Due to the regulatory change on conversion of CHF loans, Raiffeisen bank Austria created a loss reserve in the amount of HRK 617 million in 2015. The negative impact of the loan conversion regulations exceeded the positive results from regular operations, and so a post-tax operating loss of HRK 150 million was posted at Group level.

Operating conditions in 2015 were characterized by administrative interventions in the contractual relations between creditors and borrowers. Along with the negative impact on the operating result due to regulatory changes, the loan activities of the banks continued to decline. The extended period of low demand for loans was increased by corporate borrowing abroad. Consequently, the constant high liquidity in the system continued. Money-market interest rates fell to historically low levels under the pressure of excess liquidity, and deflationary pressures from abroad in the form of lower prices for imported goods were transferred to the domestic market. A decline in prices of imported goods in parallel with a decline in interest rates, first on the money market, then on deposits, and finally on loans, resulted in an increase in available household income for consumption. Thus, consumer and corporate optimism increased, with indications of heightened demand for loans. However, the end of the year was characterized by a period of political conflict, both before and after the parliamentary elections, which increased uncertainty as to the direction of economic policy following the formation of the Government.

The State sector had high financing requirements for the current deficit, and repayment of due liabilities of both the State and state-owned companies. High liquidity on foreign and domestic financial markets eased the financing of the State. Despite a downgrade in the sovereign credit rating, two levels below investment grade with a negative outlook, the interest rates achieved by the State when refinancing due obligations were significantly lower than the rates it accepted over the previous period while it still had an investment-grade rating. The increase in public debt slowed due to the economic recovery, increased budget income and a reduction in the central government budget deficit. However, despite the weak demand for loans in the private sector, lending to the State without an investment rating (and with rising public debt as a percentage of GDP) has become highly risky for the banking sector.

Fluctuations in the HRK exchange rate against its benchmark currency (EUR) were stable, with the usual seasonal pressures. The exchange rate fluctuated within a band of 2.6 per cent. A reduction of risk aversion on foreign markets resulted in a drop in the premium for Croatian risk, despite the outlook for Croatia's credit rating changing during the year from stable to negative according to two of the three leading rating agencies. 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 the country's risk premium had a significantly reduced effect on the movement of the price of capital in the financial system. By the end of the year, the banks began to make loans available to customers with a good risk rating at lower prices than financing the State debt over the same term length.

The corporate sector saw growth in industrial production and higher exports of goods and services. Positive developments in the real sector were not significantly reflected in corporate demand for loans and financial services. Corporations increased their deposits at banks, and reduced their loan debt. Under the pressure of reduced investment, the decline in leasing operations continued, and growth in demand for factoring services came to an end. The favorable conditions on the financial markets and in the real economy gradually transferred to a reduction in interest rates on corporate loans.

In the household sector the demand for loans and inclination towards saving is dependent on trends in real earnings and the expected value of household assets. The real burden of repaying loans declined due to a reduction in interest rates on loans, and the real income of households grew due to deflationary processes resulting from the decline in import prices. The inclusion of property onto the market after the legalization process enabled a recovery in property prices, and hence the value of households' most significant asset. Thus, positive developments in disposable household income are yet to eventuate in increased demand for loans.

Raiffeisenbank Austria's loan policy was slightly relaxed last year, in line with positive changes in the real sector and financial markets. Market conditions helped credit policy goals to be met, because the risk of corporate loans began to decline. In the household sector, the long-term fall in employment was halted, and real salaries increased. The conversion of loans from CHF to EUR reduced the exposure of borrowers to exchange-rate risks. The quality of the loan portfolio for households is better than that of corporations, and favorable economic trends had a positive impact on the risk surrounding 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 close of 2015, 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 totaled HRK 31,181 million at the close of 2015, a decline of HRK 238 million from the previous period. The drop in assets related to loans to customers, which fell by HRK 1,648 million, while total investments in securities increased by HRK 946 million, and highly liquid assets by an additional HRK 799 million.

Total loans to customers at the end of the year amounted to HRK 17,387 million, a decline on an annual level of 9 per cent. During the year, loans to corporations continued to decline, since corporations are increasingly borrowing abroad and paying off their loans in Croatia. Specifically, under the influence of the expensive monetary policy in the Eurozone, there is an increased supply of loan capital at reduced interest rates. Customers in the large corporation sector are using the favorable market conditions to reduce their finance costs, and a result of this process is increased deleveraging of corporations in domestic banks. Alongside the weakening overall demand for loans among corporations, the demand for kuna-denominated loans is increasing. Thus, the ratio of foreign-currency loans to total corporate loans continued to fall, and at the close of the year amounted to 63 per cent. The repayment of customer loans in the corporate sector increased the bank's liquidity, which Raiffeisenbank Austria used to increase its investments in securities, or in the portfolio of assets available for sale. The remainder of this liquidity was used to reduce liabilities on borrowings, and liquid assets were significantly increased.

The demand for kuna loans also increased in the household sector. The negative experiences of borrowers with CHF-linked loans heightened awareness of exposure to currency risks while repaying long-term loans. Thus, the ratio of kuna loans to total loans at the end of year reached 46 per cent. Customers also sought protection from interest-rate risk, as well as from currency risk. The demand for fixed-interest loans increased, to which the bank responded by offering general-purpose loans with interest rates fixed until final repayment, and with a fixed-interest rate in the initial phase of repayment for long-term fixed-purpose loans.

The conversion process to the euro is being implemented for loans with a CHF currency clause. The regulation set 30 September 2015 as the date of conversion. The conversion process will be completed in 2016, and will result in a reduction of claims from customers. Provisions for losses on these loans have therefore been made in the amount of HRK 617 million. The completion of conversion in 2016 will reduce total loans significantly, as well as the bank's liabilities due to the provisioning, while the loss for the period has been recognized in the same amount for 2015.

In conditions of weaker demand for loans, investments in securities increased. 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 were reduced by 26 per cent. This reduction in secondary sources was partly offset by taking on subordinated debt amounting to HRK 380 million, so that the overall reduction of secondary sources of funding with a slight rise in deposits from banks amounted to HRK 235 million. The ratio of secondary to total liabilities declined to 11 per cent. The long-term trend of a changing structure of funding sources thus continued.

Last year, total customer deposits rose by HRK 266 million. Corporate deposits rose by 4 per cent, while household deposits declined by 1 per cent. The decline in household deposits resulted from a process of source optimization whereby interest rates on deposits have been repeatedly reduced. Despite the subsequent outflow, household deposits amounted to HRK 13,691 million at the close of the year, and the ratio of household deposits to total liabilities was 50 per cent.

Equity capital of HRK 4,014 million was 17 per cent lower than at the beginning of the year. The reduction in equity capital was partially offset by issuing supplementary capital in the form of subordinated debt in the amount of HRK 380 million. The remainder of the reduction in equity capital resulted from the loss of HRK 241 million for 2015. Following the reduction of equity capital and issue of supplementary capital, and the reduction in risk exposure resulting from the decline in customer loans, the capital adequacy ratio of Raiffeisenbank Austria was maintained at 21 per cent.

Bank financial highlights for the period from 2011 to 2015

Bank HRK millions	2015	2014	2013	2012	2011
From Balance sheet at 31 December					
Total assets	31,181	31,419	33,005	35,553	38,460
Shareholders' equity	4,014	4,827	5,343	5,429	5,632
Customer accounts	22,964	22,698	21,914	22,878	23,355
Loans to customers	17,387	19,035	22,090	22,824	25,624
From Income statement for the year ended 31 December					
Operating income	1,448	1,604	1,614	1,685	1,688
Operating expenses	822	853	835	853	897
Profit before tax	(311)	364	327	432	383
Net profit for the year	(241)	294	276	364	327
Ratios	%	%	%	%	%
Return on average shareholders' funds	(5.75)	6.48	5.09	6.48	6.17
Return on average assets	(0.77)	0.91	0.81	0.98	0.83
Capital adequacy ratio (in accordance with the Croatian National Bank methodology)	21.13	21.33	18.73	18.30	17.41
	HRK	HRK	HRK	HRK	HRK
Earnings per share	(66)	81	76	101	90

Course EUR/HRK, HNB eop	7,63505	7,66142	7,63764	7,54562	7,53042
Course EUR/HRK, HNB avg	7,60960	7,60960	7,63001	7,57355	7,51734

The loss after tax in 2015 was HRK 241 million. This operating result was HRK 535 million lower than the previous year. The loss resulting from the conversion of loans from the franc to the euro explains 91 per cent of the difference in operating results, and the remaining 9 per cent stemmed from a reduction in regular income. The majority of income was interest income, with a share of 64 per cent. Fee income accounted for 22 per cent of total income, while the share of other income was 14 per cent. Total operating income was HRK 1,448 million, 10 per cent lower than the previous year.

Net interest income was 12 per cent lower on an annual basis due to the decline in overall loans, the fall in interest rates on loans, and transfer to debt instruments. Net commission income showed an increase of 4 per cent. Net gains from trading in financial instruments were 17 per cent lower, and other operating income was 16 per cent lower.

Total operating expenses were HRK 822 million – 4 per cent lower than the previous year. Personnel expenses and depreciation of fixed assets remained at the same level, but savings were achieved on general administrative expenses. The level of deposit insurance costs was unchanged from the previous period at HRK 42 million, but a new cost was introduced due to obligations to the newly-founded bank resolution fund. This resulted in an expense of HRK 18 million.

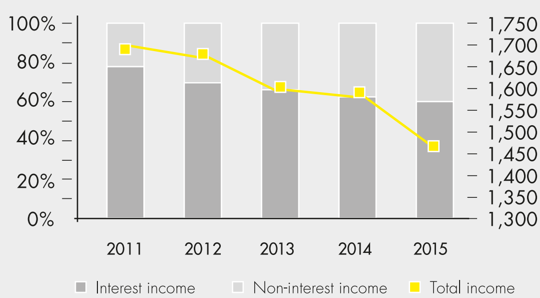
Net income before impairment charges to assets and liabilities was HRK 626 million – 17 per cent lower than the previous year. The loss from impairment of loans and other balance sheet assets was HRK 314 million – a reduction of 17 per cent. Risk provisioning expenses were reduced as a result of increased debt collection activities, as well as by realizing forfeited collateral. A comprehensive process has been developed for monitoring, early warning and the collection of debts in the early, late and enforced debt collection phases. The ending of adverse economic trends allowed the rise in non-performing loans to be halted. At the end of 2015, these amounted to HRK 3,543 million, or 18 per cent of total loans, with a provisioning cover of 68 per cent.

However, due to the creation of the provision for losses in the process of conversion of loans from the franc to the euro, other provisions rose to HRK 623 million, and the negative pre-tax operating result was HRK 311 million. The operating loss resulted from retroactive amendments to certain regulations leading to a one-off reduction in the bank's assets.

In conditions of limited opportunities to increase operating income, development was 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 of the Bank's innovative range, as does the development of financial services that are responsive to customer demand.

At the close of 2015, Raiffeisenbank Austria's business network comprised 70 branches, and sales channels were complemented by 421 ATMs and nearly 10,000 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 enhanced, and access opportunities from mobile devices have been expanded. 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)



During the long economic recession, operations were conducted in difficult circumstances due to the increased level of risk. Last year saw positive changes in the economy, leading to a reduction in credit risk. The bank thus embarked on a process of loosening loan policy restrictions. The development of innovative channels for selling standardized products and services continued, as did the adjustment to customer demand and maintenance of the high quality of services.

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.

As of the end of 2015 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 2015, Group assets totaled HRK 35,058 million. This was a decline in assets of 2 per cent on an annual basis. Within the asset structure, customer loans declined by HRK 2,154 million. Meanwhile, investment in securities increased by HRK 968 million, and highly liquid assets by HRK 803 million.

Leasing assets declined by 6 per cent to HRK 1,489 million, while factoring assets also declined by 18 per cent to HRK 1,657 million at the end of the year. These movements in assets reflect market fluctuations. Despite last year's economic recovery, investments that would increase demand for long-term financing of equipment, vehicles and property have yet to pick up. On the other hand, the trend of increased demand for short-term financing through the sale of receivables has halted. Lack of liquidity in the corporate sector during the long economic recession has been accompanied by increased restrictions in the financial sector's investment policies. Last year's economic growth, and the associated loosening of investment policy restrictions, allowed an increase in corporate liquidity, which led to reduced demand for factoring services. Thus, Raiffeisen Factoring achieved income of HRK 92 million – a decline of 18 per cent over the previous year, while Raiffeisen Leasing increased its overall income by 3 per cent to HRK 177 million.

The Raiffeisen mandatory and voluntary pension funds significantly increased their assets. At the close of 2015, assets under management by the Raiffeisen Pension Company amounted to HRK 22,629 million in the three mandatory pension funds, and an additional HRK 1,053 million in one open-end and five closed-end voluntary pension funds. Of the assets under management by the pension company, 96 per cent are the assets of our mandatory pension funds. By the close of the year, the Raiffeisen pension funds had 591,000 members. The annual 12 per cent growth of assets under management was based on paying-in of contributions by fund members, and the return generated by those funds. In 2015, fund members paid in contributions totaling HRK 1,676 million.

Investment fund assets grew to HRK 1,450 million, or by 1 per cent. Money-market funds dominate the structure of investment funds. Lower yields on short-term government debt instruments reduced the return of our bonds funds. Historically-low interest rates on the money market reduced the attractiveness of investing in cash funds. The development of the savings and investment product range in 2015 maintained customer interest and assets under management.

Building societies are credit institutions with a limited range of specific products. These are state-subsidized long-term savings and fixed-rate housing loans. Customer interest in housing savings and loans depend on alternative products on the market, and state subsidies for housing savings. State subsidies were reinstated in 2015 after a one-year break, but at a reduced rate than beforehand. Subsidies of 10 per cent were calculated in 2013, but in 2015 these were cut to 4.9 per cent of contributions paid in the year. Alternative fixed-interest loan products offered by the banks reduced the attractiveness of both loans from, and long-term savings in, building societies. The result was a decline in Raiffeisen Stambena Štedionica's assets by 10 per cent.

Group financial highlights for the period from 2011 to 2015

Group HRK millions	2015	2014	2013	2012	2011
From Balance sheet at 31 December					
Total assets	35,058	35,887	36,152	38,468	41,184
Shareholders' equity	4,326	5,052	5,467	5,531	5,743
Customer accounts	23,640	23,527	21,672	22,840	23,245
Loans to customers	19,626	21,780	23,812	24,513	27,049
From Income statement for the year ended 31 December					
Operating income	1,990	2,158	2,106	2,073	2,124
Operating expenses	1,231	1,286	1,230	1,242	1,330
Profit before tax	(182)	465	384	424	387
Net profit for the year	(150)	364	295	339	305
Ratios	%	%	%	%	%
Return on average shareholders' funds	(3.35)	6.94	5.85	6.18	5.52
Return on average assets	(0.42)	1.01	0.79	0.85	0.72
Capital adequacy ratio (in accordance with the Croatian National Bank methodology)	19.30	18.87	17.66	17.11	16.73
	HRK	HRK	HRK	HRK	HRK
Earnings per share	(43)	100	85	93	83

Course EUR/HRK, HNB eop	7,63505	7,66142	7,63764	7,54562	7,53042
Course EUR/HRK, HNB avg	7,60960	7,63001	7,57355	7,51734	7,43420

Within the local Group's sources of funding, borrowings and deposits from banks declined. The main part of the Group's secondary sources of funding constitutes borrowings from related financial institutions. By the end of the year, loan liabilities totaled HRK 4,251 million, and deposits from banks accounted for a further HRK 246 million. The ratio of secondary sources to the local Group's total liabilities reduced to 17 per cent, while the share of customer deposits was 77 per cent. Total customer deposits amounted to HRK 23,640 million, with the share of customer deposits rising to 48 per cent of total liabilities. Household deposits declined by HRK 207 million, and corporate deposits rose by HRK 320 million over the previous year.

At the close of 2015 the local Group's capital was HRK 4,326 million. The reduction of equity capital of HRK 726 million was partially offset by supplementary capital of HRK 380 million, so the capital adequacy ratio remained at 19 per cent.

The Group ended 2015 with post-tax losses of HRK 150 million. Non-banking members of the local Group achieved a positive consolidated operating result, but the bank recorded a loss greater that the consolidated profits of Group members due to losses with regard to the conversion of CHF-denominated loans to the euro. Within the Group, Raiffeisen Factoring and Raiffeisen Pension Company made significant profits. Raiffeisen Leasing, Raiffeisen Pension Insurance Company and Raiffeisen Stambena Štedionica achieved positive results.

The Group's net interest income amounted to HRK 1,033 million, a decline of 13 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 the decline in the price of money on the financial markets was reflected in interest expenses. 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 contracted with a fixed interest rate.

Income from fees and commissions totaled HRK 462 million – an increase of HRK 12 million on the previous year. Fee income was the main source of income of Group members managing pension and investment funds. The increase in the assets of pension funds and the high returns achieved led to a widening of the calculation basis for fund management fees, and thus an increase in total fee income.

Other non-interest income was HRK 495 million – 12 per cent lower than the previous period. A profit of HRK 152 million was made on trading income. The increase in trading profits was achieved due to an increase in the valuation of financial assets valued at market prices. In other income, there were significant gains from operative leasing hire, amounting to HRK 164 million, and from gross premium income from pension insurance contracts, which totaled HRK 147 million.

The local Group's total income was HRK 1,990 million – HRK 168 million lower than the previous year. The Group's operating expenses were HRK 1,231 million, of which HRK 134 million related to administrative expenses of pension insurance technical reserves. Expenses were 5 per cent lower than the previous year. Operating expenses represented 62 per cent of the Group's total income.

Customer arrears increased over the six years of the prolonged recession, and the Group responded by increasing its debt collection activities, developing debt management processes, and restructuring loans. The Group's risk management processes have been enhanced, portfolio quality is constantly monitored, and debt collection has improved, resulting in reduced losses in asset values. In 2015, losses from impairment charges to loans and other balance sheet assets amounted to HRK 319 million – HRK 78 million less than in the previous year. But losses on other reserves amounted to HRK 622 million. These losses include the negative impact of the conversion of CHF-denominated loans, amounting to HRK 617 million.

The loss on the value of investments and liabilities was 24 per cent greater than the Group's net operating income. Consequently, the Group recorded a negative operating result of HRK 150 million.

RBI at a glance

Raiffeisen Bank International at a glance

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. In CEE, at the end of 2015, around 48,000 RBI employees served some 14.9 million customers in around 2,700 business outlets. 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 51,000 employees and has total assets of approximately 114 billion.

RZB was founded in 1927 as "Genossenschaftliche Zentralbank". The RZB founded its first subsidiary bank in CEE already back in 1987. Since then, further own 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 Vienna 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. At year-end 2015, RZB – which functions as the central institution of the Austrian Raiffeisen Banking Group – 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 judgements and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual financial statements on the Bank and the Group for acceptance. If the Supervisory Board approves the annual financial statements, they are given to General assembly for acceptance.

The Management Board is also responsible for preparation and presentation of supplementary schedules for the CNB 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).

The separate and consolidated financial statements set out on pages 37 to 150 as well as supplementary schedules for the Croatian National Bank and reconciliation of the statutory financial statements with the supplementary schedules for the Croatian National Bank, set out on pages 151 to 162, were authorised by the Management Board on 31 March 2016 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

Liana Keserić
Member of the Management Board

Zoran Košćak
Member of the Management Board

Ivan Žižić
Member of the Management Board

Independent auditors' report to the shareholders of Raiffeisenbank Austria d.d.

Report on the financial statements

We have audited the accompanying separate financial statements of Raiffeisenbank Austria d.d. ("the Bank") and consolidated financial statements of Raiffeisenbank Austria Group ("the Group"), which comprise the statements of financial position as at 31 December 2015, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate and Consolidated Financial Statements

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

Auditors' 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 about whether the separate and consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate and consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control 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 separate and consolidated financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2015 and of their financial performance and their cash flows for the year then ended in accordance with statutory accounting requirements for banks in Croatia.

Independent auditors' report to the shareholders of Raiffeisenbank Austria d.d. (continued)

Other legal and regulatory requirements

Pursuant to 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), the Management Board of the Bank has prepared the consolidated schedules set out on pages 151 to 157 ("the Schedules"), which comprise an alternative presentation of the consolidated statement of financial position as of 31 December 2015, and of the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a reconciliation ("the Reconciliation") of the Schedules with the financial statements set out on pages 158 to 162. The Management Board of the Bank is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the consolidated financial statements set out on pages 37 to 150 on which we have expressed an opinion as set out above.

Other matter

Financial statements of the Bank and the Group for the year ended 31 December 2014 were audited by another auditor who issued an unmodified audit opinion on those statements on 13 April 2015.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

Zagreb, 31 March 2016

For and on behalf of KPMG Croatia d.o.o. za reviziju:

Goran Horvat
Director, Croatian Certified Auditor

Consolidated statement of financial position as at 31 December

HRK millions	Notes	Group 2015	Group 2014
Assets			
Cash and current accounts with banks	6	2,637	1,834
Obligatory reserve with the Croatian National Bank	7	1,977	1,963
Financial assets at fair value through profit or loss	8	2,291	2,957
Placements with and loans to other banks	9	955	1,428
Financial assets available for sale	10	5,028	3,328
Loans and advances to customers	11	19,626	21,780
Financial investments held to maturity	12	283	349
Property, plant and equipment	14	1,482	1,517
Intangible assets	15	195	194
Deferred tax asset	16	206	156
Current tax asset		4	39
Other assets	17	374	342
Total assets		**35,058**	**35,887**

The accounting policies and other notes on pages 49 to 150 form an integral part of these financial statements.

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

HRK millions	Notes	Group 2015	Group 2014
Liabilities			
Financial liabilities at fair value through profit or loss	18	111	250
Deposits from banks	19	246	302
Deposits from companies and other similar entities	20	8,794	8,474
Deposits from individuals	21	14,846	15,053
Borrowings	22	4,251	5,345
Provisions for liabilities and charges	23	804	182
Other liabilities	24	766	700
Subordinated liabilities	25	846	464
Total liabilities		**30,664**	**30,770**
Equity			
Share capital	35	3,621	3,621
Share premium		12	12
Capital reserve		1	1
Legal reserve		180	178
Fair value reserve		82	17
Retained earnings		430	1,223
Total equity attributable to equity holders of the parent		**4,326**	**5,052**
Non-controlling interest	38	68	65
Total equity		**4,394**	**5,117**
Total liabilities and equity		**35,058**	**35,887**

The accounting policies and other notes on pages 49 to 150 form an integral part of these financial statements.

Consolidated statement of comprehensive income for the year ended 31 December

HRK millions	Notes	Group 2015	Group 2014
Interest income	26	1,452	1,732
Interest expense	27	(419)	(550)
Net interest income		**1,033**	**1,182**
Fee and commission income	28	704	628
Fee and commission expense	29	(242)	(217)
Net fee and commission income		**462**	**411**
Net trading gains and gains from financial assets available for sale	30	152	194
Other operating income	31	343	371
Trading and other income		**495**	**565**
Operating income		**1,990**	**2,158**
Operating expenses	32	(1,231)	(1,286)
Impairment losses	33	(319)	(397)
Provisions for liabilities and charges	23	(622)	(10)
(Loss)/profit before tax		**(182)**	**465**
Income tax expense	34	32	(101)
(Loss)/profit for the year		**(150)**	**364**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Change in fair value of financial assets available for sale, net of tax and realised amounts		65	7
Other comprehensive income for the year, net of tax		**65**	**7**
Total comprehensive (loss)/profit for the year		**(85)**	**371**
Attributable to:			
- Equity holders of the parent		(156)	361
- Non-controlling interest	38	6	3
(Loss)/earnings per share attributable to the equity holders of the parent	39	**(43)**	**100**

The accounting policies and other notes on pages 49 to 150 form an integral part of these financial statements.

Consolidated statement of changes in equity

HRK millions	Share capital	Share premium	Capital reserve	Legal reserve	Fair value reserve	Retained earnings	Total	Non-controlling interest	Total
At 1 January 2014	**3,621**	**12**	**1**	**178**	**10**	**1,645**	**5,467**	**62**	**5,529**
Other comprehensive income	–	–	–	–	7	–	7	–	7
Increase of reserves on acquisition of Raiffeisen stambena štedionica d.d.	–	–	–	–	–	22	22	–	22
Profit for the year	–	–	–	–	–	361	361	3	364
Dividend paid	–	–	–	–	–	(805)	(805)	–	(805)
At 31 December 2014	**3,621**	**12**	**1**	**178**	**17**	**1,223**	**5,052**	**65**	**5,117**
Other comprehensive income	–	–	–	–	65	–	65	–	65
Increase in legal reserve	–	–	–	2	–	(2)	–	–	–
(Loss)/profit for the year	–	–	–	–	–	(156)	(156)	6	(150)
Dividend paid	–	–	–	–	–	(635)	(635)	(3)	(638)
At 31 December 2015	**3,621**	**12**	**1**	**180**	**82**	**430**	**4,326**	**68**	**4,394**

The accounting policies and other notes on pages 49 to 150 form an integral part of these financial statements.

Consolidated statement of cash flow for the year ended 31 December

HRK millions	Notes	Group 2015	Group 2014
Cash flows from operating activities			
(Loss)/profit before tax		(182)	465
Adjustments for:			
– Amortization and depreciation	32	195	200
– Foreign exchange differences	30	(110)	74
– Realised gains on financial assets available for sale	30	(9)	(12)
– Impairment losses (excluding cash and cash equivalents)	23,33	931	406
– Net interest income	26,27	(1,033)	(1,183)
– Gain on acquisition of Raiffeisen stambena štedionica		–	22
Changes in operating assets and liabilities			
Net decrease in financial assets at fair value through profit or loss		653	718
Net decrease in placements with banks, with original maturity more than three months		368	300
Net (increase)/decrease in obligatory reserve with the Croatian National Bank		(18)	76
Net decrease in loans and advances to customers		2,275	2,066
Net decrease in other assets		70	50
Redemption of financial investments held to maturity		66	397
Net decrease in financial liabilities at fair value through profit or loss		(138)	(398)
Net decrease in deposits from banks		(50)	(240)
Net increase in deposits from companies and other similar entities		288	750
Net (decrease)/increase in deposits from individuals		(329)	806
Net increase in other liabilities		66	39
Interest received (excluding financial assets available for sale and held to maturity)		1,125	1,425
Interest paid		(394)	(507)
Net cash from operating activities before tax		**3,774**	**5,454**
Income tax paid		(48)	(80)
Net cash from operating activities		**3,726**	**5,374**

The accounting policies and other notes on pages 49 to 150 form an integral part of these financial statements.

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

HRK millions	Notes	Group 2015	Group 2014
Cash flows from investing activities			
Interest received from financial assets available for sale and financial investments held to maturity		116	54
Purchase of financial assets available for sale		(1,633)	(3,216)
Purchase of property, plant and equipment and intangible assets		(286)	(450)
Proceeds from disposal of property, plant and equipment and intangible assets		111	285
Net cash from investing activities		**(1,692)**	**(3,327)**
Cash flows from financing activities			
Receipts from borrowings	22	2,384	3,477
Repayment of borrowings	22	(3,483)	(5,069)
Receipts from subordinated liabilities		383	461
Dividend paid		(638)	(805)
Net cash from financing activities		**(1,354)**	**(1,936)**
Effects of foreign exchange differences on cash and cash equivalents		12	18
Net increase in cash and cash equivalents		**692**	**129**
Cash and cash equivalents at the beginning of the year	40	**2,830**	**2,701**
Cash and cash equivalents at the end of the year	40	**3,522**	**2,830**

The accounting policies and other notes on pages 49 to 150 form an integral part of these financial statements.

Separate statement of financial position as at 31 December

HRK millions	Notes	Bank 2015	Bank 2014
Assets			
Cash and current accounts with banks	6	2,633	1,834
Obligatory reserve with the Croatian National Bank	7	1,977	1,963
Financial assets at fair value through profit or loss	8	1,954	2,669
Placements with and loans to other banks	9	991	1,461
Financial assets available for sale	10	4,744	3,083
Loans and advances to customers	11	17,387	19,035
Investments in subsidiaries	13	366	366
Property, plant and equipment	14	458	428
Intangible assets	15	188	186
Deferred tax asset	16	201	146
Current tax asset		9	43
Other assets	17	273	205
Total assets		**31,181**	**31,419**

The accounting policies and other notes on pages 49 to 150 form an integral part of these financial statements.

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

HRK millions	Notes	Bank 2015	Bank 2014
Liabilities			
Financial liabilities at fair value through profit or loss	18	111	250
Deposits from banks	19	336	304
Deposits from companies and other similar entities	20	9,273	8,940
Deposits from individuals	21	13,691	13,758
Borrowings	22	1,802	2,451
Provisions for liabilities and charges	23	793	170
Other liabilities	24	315	255
Subordinated liabilities	25	846	464
Total liabilities		**27,167**	**26,592**
Equity			
Share capital	35	3,621	3,621
Share premium		12	12
Capital reserve		1	1
Legal reserve		173	173
Fair value reserve		60	(3)
Retained earnings		147	1,023
Total equity		**4,014**	**4,827**
Total liabilities and equity		**31,181**	**31,419**

The accounting policies and other notes on pages 49 to 150 form an integral part of these financial statements.

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

HRK millions	Notes	Bank 2015	Bank 2014
Interest income	26	1,271	1,517
Interest expense	27	(342)	(459)
Net interest income		**929**	**1,058**
Fee and commission income	28	554	513
Fee and commission expense	29	(233)	(204)
Net fee and commission income		**321**	**309**
Net trading gains and gains from financial assets available for sale	30	127	153
Other operating income	31	71	84
Trading and other income		**198**	**237**
Operating income		**1,448**	**1,604**
Operating expenses	32	(822)	(853)
Impairment losses	33	(314)	(376)
Provisions for liabilities and charges	23	(623)	(11)
(Loss)/profit before tax		**(311)**	**364**
Income tax expense	34	70	(70)
(Loss)/profit for the year		**(241)**	**294**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Change in fair value of financial assets available for sale, net of tax and realised amounts		63	(5)
Other comprehensive income/(loss) for the year, net of tax		**63**	**(5)**
Total comprehensive (loss)/profit for the year		**(178)**	**289**
(Loss)/earnings per share attributable to the equity holders of the parent	39	**(66)**	**81**

The accounting policies and other notes on pages 49 to 150 form an integral part of these financial statements.

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

HRK millions	Share capital	Share premium	Capital reserve	Legal reserve	Fair value reserve	Retained earnings	Total
At 1 January 2014	3,621	12	1	173	2	1,534	5,343
Other comprehensive income	–	–	–	–	(5)	–	(5)
Profit for the year	–	–	–	–	–	294	294
Dividend paid	–	–	–	–	–	(805)	(805)
At 31 December 2014	3,621	12	1	173	(3)	1,023	4,827
Other comprehensive income	–	–	–	–	63	–	63
Profit for the year	–	–	–	–	–	(241)	(241)
Dividend paid	–	–	–	–	–	(635)	(635)
At 31 December 2015	3,621	12	1	173	60	147	4,014

The accounting policies and other notes on pages 49 to 150 form an integral part of these financial statements.

Separate statement of cash flows for the year ended 31 December

HRK millions	Notes	Bank 2015	Bank 2014
Cash flows from operating activities			
(Loss)/profit before tax		(311)	364
Adjustments for:			
- Amortization and depreciation	32	72	74
- Foreign exchange differences	30	(75)	105
- Impairment losses (excluding cash and cash equivalents)	23,33	927	384
- Realised gains from financial assets available for sale	30	(9)	(12)
- Net interest income	26,27	(929)	(891)
- Dividend income from subsidiaries		(55)	(53)
Changes in operating assets and liabilities			
Net decrease in financial assets at fair value through profit or loss		706	855
Net decrease in placements with banks, with original maturity more than three months		371	190
Net (increase)/decrease in obligatory reserve with the Croatian National Bank		(18)	76
Net decrease in loans and advances to customers		1,754	3,032
Redemption of financial investments held to maturity		–	614
Net (increase)/decrease in other assets		(19)	145
Net decrease in financial liabilities at fair value through profit or loss		(137)	(416)
Net increase/(decrease) in deposits from banks		39	(240)
Net increase in deposits from companies and other similar entities		298	949
Net decrease in deposits from individuals		(196)	(534)
Net increase/(decrease) in other liabilities		59	(49)
Interests received (excluding financial assets available for sale and held to maturity)		975	1,273
Interests paid		(330)	(489)
Net cash from operating activities before tax		**3,122**	**5,377**
Income tax paid		(11)	(51)
Net cash from operating activities		**3,111**	**5,326**

The accounting policies and other notes on pages 49 to 150 form an integral part of these financial statements.

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

HRK millions	Notes	Bank 2015	Bank 2014
Cash flows from investing activities			
Interest received from financial assets available for sale		83	40
Additional investment in subsidiaries		–	(65)
Purchase of financial assets available for sale		(1,559)	(3,070)
Dividend received		55	53
Purchase of property, plant and equipment and intangible assets		(104)	(61)
Net cash from investing activities		**(1,525)**	**(3,103)**
Cash flows from financing activities			
Receipts from borrowings	22	653	1,265
Repayment of borrowings	22	(1,303)	(2,907)
Receipts from subordinated liabilities		382	461
Dividend paid		(635)	(805)
Net cash from financing activities		**(903)**	**(1,986)**
Effects of foreign exchange differences on cash and cash equivalents		12	18
Net increase in cash and cash equivalents		**695**	**255**
Cash and cash equivalents at the beginning of the year	40	**2,811**	**2,556**
Cash and cash equivalents at the end of the year	40	**3,506**	**2,811**

The accounting policies and other notes on pages 49 to 150 form an integral part of these financial statements.

Notes to the financial statements

1. General information

Raiffeisenbank Austria d.d. ("the Bank" or "the Parent") is a joint stock company incorporated and domiciled in Croatia. The Bank is the parent of the Raiffeisenbank Austria 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" and International Financial Reporting Standard 10: "Consolidated Financial Statements".

Composition of the Group (Note 13):

Raiffeisenbank Austria d.d.
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.
Raiffeisen mirovinsko osiguravajuće društvo d.d.
Raiffeisen Factoring d.o.o.
Raiffeisen Invest d.o.o.
Raiffeisen Bonus d.o.o.

These financial statements were authorised by the Management Board on 31 March 2016 for issue to the Supervisory Board. This is English translation of statutory financial statements issued in Croatian.

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 2015.

2. Basis of preparation

a) 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 on assets not identified as impaired (including sovereign risk assets) at prescribed rates (excluding assets carried at fair value). In line with the above mentioned regulations, the Group recognised portfolio based provisions in the amount of HRK 310 million (2014: HRK 282 million) (Bank 2015: HRK 285 million and 2014: HRK 254 million), and recognised an expense in the amount of HRK 28 million (2014: HRK 22 million income) (Bank 2015: HRK 31 million; 2014: HRK 35 million). Group's portfolio based off-balance impairment losses as at 31 December 2015 amounted to HRK 75 million (2014: HRK 76 million) (Bank 2015: HRK 75 million and 2014: HRK 76 million) and the Group recognised income in the amount of HRK 1 million (2014: expense HRK 4 million) (Bank 2015: income HRK 1 million and 2014: expense HRK 4 million). Although, in accordance with International Accounting Standard 39 "Financial instruments: Recognition and Measurement" ("IAS 39"), such provisions should more properly be presented as an appropriation within equity, the Group continues to recognise such provisions as a substitute for existing but unidentified impairment losses calculated in accordance with the requirements of IAS 39. Due to the lack of observable historical data in respect of the unidentified losses existing in its various credit risk portfolios at the reporting date, the Group is not yet able to assess provisions for unidentified credit losses which were incurred at the reporting date, as required by IAS 39.

2. Basis of preparation (continued)

a) Statement of compliance (continued)

- Additionally the CNB prescribes minimum levels of impairment losses against certain specifically identified impaired exposures, regardless of the net present value of expected future cash flows, which may be different from the impairment loss required to be recognised in accordance with the IAS 39 requirements.
- In accordance with local regulations, interest income on impaired exposures is recognised on a cash basis, as opposed to IAS 39, which prescribes recognition of interest income on impaired exposures through unwinding of the discount.
- In accordance with local regulations, the Group recognises provisions for court cases incorporating the likelihood of the loss into measurement of the provision (i.e. if the likelihood of the loss is estimated to be 10%, the provision will be calculated as 10% of the potential loss), which is contrary to IFRS, which prescribes recognition of the full amount of potential loss, once it is probable that the court case will be lost.
- According to the CNB instructions, the Bank recognised the expected loss of CHF conversion for loans subject to conversion in the amount of HRK 617 million presented within Provisions for liabilities and charges in the statement of financial position and in the income statement. Under IAS 39 such a loss would be offset against the loans and advances to customers.

b) Measurement

The financial statements are prepared on a 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 assets available for sale, except those equity investments available for sale for which a reliable measure of fair value is not available and are measured at cost less impairment. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortised or historical cost.

c) Basis of consolidation

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss. If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service. Business combinations involving entities under common control are recognised at their carrying amounts, and the difference is recognised directly in equity, as discussed in the section Acquisition of entities under common control.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

In its separate financial statements, the Bank accounts for its investments in subsidiaries are carried at cost less any impairment.

2. Basis of preparation (continued)

Associates

Associates are entities over which the Group has significant influence but no control. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition. In the Bank's separate financial statements investments in associates are accounted at cost less impairment.

The Group's share of its associates' post-acquisition gains or losses is recognised in the income statement 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.

Dividends received from associates are treated as a decrease of investment in the associate in the Group's consolidated statement of financial position and as dividend income in the Bank's unconsolidated income statement.

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 impairment of the assets transferred. The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Non-controlling interests in subsidiaries are included in the total equity of the Group.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Acquisition of entities under common control

Business combinations arising from the transfer of shares in entities that are under the control of the shareholder that controls the Group are recognised at their carrying amounts since the acquisition. The acquired assets and liabilities are recognised at the carrying amounts recognised previously in the financial statements of the acquired company. Parts of the capital of the acquired companies are added to the respective positions of equity in addition to the issued capital. Differences arising from the acquisition of the Group are recognised in retained earnings. The Group does not restate comparative information as if the Group's member was always a member of the RBI Group, but the acquisition is shown from the date of acquisition.

d) 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 2015 was HRK 7.635047 to EUR 1 (2014: HRK 7.661471); HRK 6.991801 to USD 1 (2014: HRK 6.302107) and HRK 7.059683 to CHF 1 (2014: HRK 6.368108).

2. Basis of preparation (continued)

e) 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 4.

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

f) Impact of financial crisis

Global financial market situation and the impact on Croatia

The business conditions in the highly euroized financial market depend considerably on the policy of the European Central Bank. In 2015 the ECB monetary policy was expansive, lowering the base interest rate just close to zero and also implementing unconventional monetary stimulation measures in the economy. Therefore, on the Eurozone financial market there is an increase in the capital offer at attractive prices, which offer spread also to the connected financial markets in the vicinity. The solvent clients from Croatia used the favourable capital offer in the Eurozone financial market. Their direct borrowing abroad refinanced their debts in the domestic financial market, where, consequently, the liquidity surplus increased. In the conditions of a lowered capital demand the adjustment rolled out through a decrease in yields from domestic deposits.

Stimulation measures of the ECB have impacted the Eurozone economy positively, and they also directly affected the increase in the demand for goods and services from Croatia, which in turn facilitated the end of the six-year recession. The simultaneous decrease in import prices resulted in an increase in the available personal income for spending. However, the Swiss Franc appreciation, after the January cease of the Swiss central bank intervention on the FX markets, brought about an increased burdening of the CHF borrowers' income. Then followed an administrative intervention in the contractual relationships of the creditors with the borrowers, which ended in the second half-year by passing a regulation on the conversion of the borrowers' loans from CHF into EUR. The conversion is executed at the historical exchange rates as on the day of loan disbursement, and the exchange rate differences arising with respect to the exchange rates as on the day of loan conversion are settled by the creditors. Because of this the banks who credited the consumers in the CHF realised losses and so the banking sector as a whole achieved a negative business result in 2015.

The realised economic growth allowed for an increase in budget income, however, the postponed implementation of the fiscal consolidation measures on the expenditures side was assessed as negative by the leading rating agencies. Two out of the three agencies corrected the prospects for Croatia from stable into negative, pointing out the unsustainable dynamics of the public debt trend. In October the Parliamentary elections were held and thus the decisions passed on budget financing in the interim period were temporary. The stability of the financial system was retained due to the consistency of the CNB in their policy of maintaining a stable HRK-to-EUR exchange rate, and the increased depreciation pressures after adopting the above regulation on conversion were neutralized by interventions in the FX market and by introducing reverse repo auctions.

g) Standards, interpretations and amendments to published standards that are not yet effective and were not used in preparation of these financial statements

Several new and altered Standards and Interpretations have been issued by the International Accounting Standards Board ("IASB") and its International Financial Reporting Interpretations Committee, but are not yet applicable to entities reporting under IFRS as adopted by EU, for the year ended 31 December 2015, and have not been applied in preparation of these financial statements. The new and altered Standards and Interpretations endorsed by the EU are not relevant to the Group's business and hence will not affect its financial statements.

h) Restatement of the comparative financial information

Certain comparative financial information for the year 2014, where necessary, have been reclassified to achieve consistency with the current year amounts and other disclosures.

The accounting policies summarized below have been applied consistently for all periods presented in these financial statements.

3. Significant accounting policies

Interest income and expense

Interest income and expense are recognised in profit or loss 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 income or interest expense in profit or loss. 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 profit or loss 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 profit or loss when the rights to receive the dividend are established.

Gains less losses from trading and investment financial instruments

Gains less losses from trading 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 realised gains and losses from financial assets 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 transactions in foreign currencies.

3. Significant accounting policies (continued)

Foreign currency transactions
Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction and are not retranslated. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available for sale equity instruments, which are recognised in profit or loss (refer below).

Changes in the fair value of monetary (debt) securities denominated in or linked to 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. Translation differences are recognised in income as a part of the foreign exchange gains or losses on the revaluation of monetary assets and liabilities presented within financial income or financial expense in the profit or loss. Other changes in the carrying amounts are recognised in profit or loss. The translation differences on revaluation of non-monetary financial assets denominated in or linked to foreign currency classified as available for sale are recognised in other comprehensive income, along with other changes in their fair value.

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 other 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, and, where appropriate, re-evaluates this designation at every reporting date.

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;
- the designation eliminates or significantly reduce an accounting mismatch that would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial instruments at fair value through profit or loss include debt and equity securities, investments in investment funds and derivatives.

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.

The Group will not classify financial assets as held to maturity if during the current financial year or during the previous two financial years, more than an insignificant amount of financial instruments held to maturity was sold or reclassified from financial instruments, other than sales or reclassifications that:

- are close to maturity and date of the call for sale of financial assets;
- arise after the Group mainly collected all the original principal of the financial assets through planned payments or early settlement; or
- can be linked to an isolated event beyond the control of the Group that could not be reasonably anticipated by the Group.

d) Financial assets available for sale

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

e) Other financial liabilities

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

Financial instruments: reclassification

No transfers of derivatives and financial instruments initially designated as at fair value through profit and loss are allowed to other portfolios. Financial assets held for trading may be reclassified from this category in the case when both of the following two conditions are met: a change in the intended purpose of the assets and an extraordinary event. In such case, the fair value at the reclassification date becomes the new cost/amortised cost. Reclassification is possible to the available-for-sale portfolio, the held-to-maturity portfolio and the loans and receivables portfolio. Transfers from other portfolios to the portfolio at fair value through profit and loss are not possible.

Financial asset classified as available for sale that would have met the definition of loans and receivables (if it had not been designated as available for sale) may be reclassified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity. For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in other comprehensive income shall be amortised to profit or loss over the remaining life of the asset using the effective interest method.

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 loaned or borrowed.

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, less eventually impairment.

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 profit or loss.

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 profit or loss. 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 profit or loss. Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses on the instrument are transferred to profit or loss.

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

Netting

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.

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 48. 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

Financial assets carried at amortised cost and finance lease and operating lease receivables

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets not carried at fair value through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- i) significant financial difficulty of the borrower or issuer;
- ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- iii) the restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider;
- iv) significant restructuring due to financial difficulty or expected bankruptcy;
- v) the disappearance of an active market for the financial asset because of financial difficulties;

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

3. Significant accounting policies (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost and finance lease and operating lease receivables (continued)

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When possible, the Bank seeks to restructure loans rather than to take possession of collateral. If the terms of the financial assets are renegotiated or modified or an existing financial asset is replaced with the new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated assets are substantially different, then the contractual rights to cash flows from the original financial assets are deemed to have expired. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective assessment, calculated using the loan's original effective interest rate.

Similar analysis is undertaken for finance and operating lease receivables, related predominantly to subsidiary Raiffeisen Leasing.

Financial assets available for sale

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the assets are impaired. 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 income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is subsequently recognised in other comprehensive income rather than profit of loss until final derecognition.

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 profit or loss, 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 profit or loss unless there is a reliable fair value measure.

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

3. 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.

Changes in fair value of derivatives designated and eligible as fair value hedges are recognised immediately in profit or loss, together with any changes in fair value of the hedged items i.e. hedged liability which can be associated with hedged risk. The change in the fair value of a hedge instrument is recognised in profit or loss, 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 and associates

Investments in subsidiaries and associates are accounted at cost less impairment in the separate financial statements of the Bank. Investments in subsidiaries are fully consolidated in the consolidated financial statements of the Group whilst investments in associates are accounted for under the equity method.

3. 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 profit or loss 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) Current accounts and deposits from banks and customers

Current accounts and deposits are classified as other liabilities and initially measured at fair value plus transaction costs, and subsequently stated at their amortised cost using the effective interest method.

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 profit or loss 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.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

3. 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:

	2015	2014
Buildings	50 years	50 years
Equipment	4 – 10 years	4 – 10 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 profit or loss.

Inventory and foreclosed assets

The Group occasionally acquires real estate and other asset in settlement of certain loans and advances and finance and operating lease contracts. Inventory also includes returned leased assets. Such real estate and other assets are stated at the lower of the net carrying of the related loans and advances and the current fair value of such assets. Subsequent measurement is at the lower of cost and recoverable amount. The Group's intention is mainly to sell such assets, however, such assets in certain limited cases may end up being used by the Group.
Gains or losses on disposal are recognised in profit or loss.

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:

	2015	2014
Leasehold improvements	1 – 20 years	1 – 20 years
Software	5 – 8 years	5 – 8 years

3. Significant accounting policies (continued)

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets are tested for impairment at each reporting date.

If any indication exists, the asset's recoverable amount is estimated. For assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from the Group's other assets and liabilities. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their net 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.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions for liabilities and charges

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

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. The management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

Provisions are released only for such expenditure in respect of which provision are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

Leases-Group as lessor

a) Finance leases

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

b) Operating leases

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

3. Significant accounting policies (continued)

Employee benefits

a) Defined pension contributions

The Group pays contributions to mandatory pension plans on a mandatory, contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Since the Group records severance payments based on actuarial calculations, all gains and losses from increases and decreases in the present value of the defined benefit obligation, which arise from actuarial risks, are recorded through other comprehensive income.

b) Long-term service benefits

The Bank provides employees with jubilee and 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.

c) Pension insurance

Pension insurance provisions of subsidiary Raiffeisen mirovinsko osiguravajuće društvo d.o.o. have been computed by the Group’s licensed actuary, in accordance with the method prescribed by the Law on Pension Insurance Companies and Payment of Pensions based on Individual Capitalised Savings.

Dividends

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

Share capital

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

Treasury shares

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

Retained earnings

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

Earnings per share

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

Off-balance-sheet commitments and contingent liabilities

In the ordinary course of business, the Group enters into credit related commitments which are recorded in off-balance-sheet accounts and primarily include guarantees, letters of credit and undrawn loan commitments. Such financial commitments are recorded in the Group’s statement of financial position if and when they become payable.

Managed funds for and on behalf of third parties

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

4. Significant accounting estimates and judgments

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 allowance 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 11), placements with and loans to other banks (Note 9) 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 23 and 43). 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 2015	Group 2014	Bank 2015	Bank 2014
Summary of impairment losses					
Impairment losses on balance sheet exposure	6,7,9,11,12,17	2,964	2,785	2,846	2,653
Provision for off-balance-sheet exposure	23	118	116	118	116
		3,082	2,901	2,964	2,769

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, giving due regard to the ranges prescribed by the CNB based on the past due days. In estimating impairment losses on items individually assessed as impaired for corporate portfolio the Group uses discounted cash flow model.

4. Significant accounting estimates and judgements (continued)

Financial assets carried at amortised cost (continued)

At the year end, gross carrying amount of specifically impaired loans and advances, and the rate of impairment were as follows:

	Corporate	Retail	2015 Total	Corporate	Retail	2014 Total
Group						
Gross value of exposure (in HRK millions)	2,621	1,264	3,885	2,746	1,216	3,962
Impairment rate (in %)	74	60	69	64	64	64
Bank						
Gross value of exposure (in HRK millions)	2,522	1,245	3,767	2,615	1,189	3,804
Impairment rate (in %)	73	61	69	64	65	64

Each additional increase of one percentage point in the impairment rate on the gross carrying amount of specifically identified impaired loans at 31 December 2015 would lead to the recognition of an additional impairment loss of HRK 37.67 million (2014: HRK 38 million) at the Bank level and an additional impairment loss of HRK 38.9 million (2014: HRK 39.6 million) at the Group level.

The amount of impairment losses at 31 December 2015 estimated on a portfolio basis amounted to HRK 359 million (2014: HRK 332 million) of the relevant on-and off-balance-sheet exposure. The total of these portfolio based impairment losses amounted to 1.3% (2014: 1.1%) of loans and advances to customers and to 1% (2014: 1%) on off-balance-sheet exposure, in both cases net of amounts individually assessed as impaired.

Fair value of derivatives

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

a) 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 2015, the carrying amount of treasury bills classified as financial assets at fair value through profit or loss was HRK 127 million (2014: HRK 1,063 million).

b) 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.

c) 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 value of money, the Bank applies legal penalty interest and 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.

4. Significant accounting estimates and judgements (continued)

c) Provisions for court cases (continued)

Provisions for court cases are booked in profit or loss for the period in which the provision is recognized.

The Group and the Bank (Note 23) made a provision for court cases (for principal and interest) in the amount of HRK 59 million (2014: HRK 59 million) or HRK 50 million (2014: HRK 49 million). The management believes that the amount of provision created is sufficient. This amount represent the best estimate of the Group for litigation losses, although the actual loss of legal proceeding against the Group may be significantly different. It is not practical for the management to assess the financial impact of changes in the assumptions on the basis of which the management will assess the requirement for provisions.

As explained in Note 23, the Bank is the defendant, along with seven other banks in the Republic of Croatia, in the litigation instituted by the plaintiff Croatian Association of Consumer Protection Potrošač with the charge that the sued banks had approved the loans pegged to the Swiss Franc ("CHF") ("CHF loans") illegally to private individuals thus violating their rights as under the Consumer Protection Act. In 2015 amendments to the Consumer Lending Act regulated the conversion of the CHF loans into the EUR. On 9 April 2015 the provision of agreements contracted with repayment in countervalue of CHF which allowed the Bank unilateral changes to the interest rate was declared null and void.

On 22 September, 2015 the Act on Amendments and Changes to the Credit Institutions Act ("the Act") was passed, regulating the conversion of accepting loans in the Swiss Franc into the Euro loans. The new Act had an impact also the Potrošač law suit so that after the conversion there is no legal ground for the clients to claim the refund of the overpaid interests, as these amounts were taken into consideration in the annexes to the agreement accepting the conversion.

d) Conversion of CHF loans denominated in or indexed to Swiss franc

In the period from 2001 to 2014 the Bank granted retail loans linked to or denominated in Swiss franc (CHF).

At loan inception, clients took advantage of favourable rates in CHF. However, from 2006 CHF LIBOR rates started to increase, as a result of which the Bank started to increase interest rates on CHF loans. In addition, in 2009 and then in 2015, CHF appreciated sharply against HRK (and EUR), which further increased monthly instalments, while CHF LIBOR rates fell markedly. Due to the above noted changes, Potrošač brought a lawsuit against seven banks in the Republic of Croatia, including the Bank, alleging the miss-selling by the defendant banks of loans linked to CHF to retail customers, and thereby the infringement of the consumer protection rights of those customers ("CHF loans").

Meanwhile, in response to a sudden appreciation of CHF, in January 2015 the Consumer Credit Act was changed and as a temporary measure the CHF exchange rate was fixed at 6.39 HRK for 1 CHF for the duration of one year for regular repayment annuities. The effect of the exchange rate fixing for the CHF loans amounts at HRK 37 million for the Bank (including the voluntary extension of the exchange rate fixing until 31 March 2016) and is presented within the position Net trading gains and gains from financial assets available for sale. On 22 September 2015 the Act Amending the Consumer Credit Act ("the Amendment") was approved, by which, as a permanent measure, the conversion of CHF loans into EUR was regulated. The Amendment came into force on 30 September 2015. In accordance with the Amendment, the conversion of CHF loans into EUR is carried out in such a way that the position of the borrowers with loans denominated in CHF is matched to the position in which the borrower would have been if the loan was originally denominated in EUR, and the position of borrowers with loans denominated in HRK which contain a currency clause linking payments to CHF is matched to the position in which the borrower would have been if the loan was originally denominated in HRK containing a currency clause linking payments to EUR. The Amendment gave the banks a period of 45 days from when the Amendment came into force to deliver to the consumer the loan conversion calculation as at 30 September 2015. The consumer had 30 days to respond if the conversion is accepted. The time limit for the conversion itself, after the conversion had been accepted, was not specified.

4. Significant accounting estimates and judgements (continued)

d) Conversion of CHF loans denominated in or indexed to Swiss franc (continued)

On 18 January 2016 the Bank repeated the loan conversion calculation for the clients. The repeated conversion calculation applied more favourable interest rates for the clients routing their regular income to an account with RBA (primary clients), as well as reconciliation of interest rates that were performed for the primary clients during the loan repayment period, or from the date of loan disbursement until 30 September 2015. Because of the repeated conversion calculation, the Bank did not perform the conversion by 31 December 2015.

The total loss for the Bank and the Group recognised as the result of the conversion is HRK 617 million and is presented in the position Provision for liabilities and charges in profit or loss and in the position Provision for liabilities and charges in the statement of financial position.

The table below shows number of loan contracts and carrying value of loans subject to conversion:

	30 September 2015		
HRK million	Number of contracts	Net carrying value	Estimated loss on conversion
Neither past due nor impaired	2,383	883	297
Past due but not impaired	1,986	795	251
Impaired	382	229	69
Gross	**4,751**	**1,907**	**617**
Specific impairment allowance		(98)	
Net of specific impairment allowance		**1,809**	

Subsequently, in 2016 the Bank decided that the conversion will also include previously cancelled loans, converted into HRK at cancellation. The effects of conversion of these loans will be reported in profit or loss in 2016.

e) Pension insurance

In accordance with the legal framework, the Group provides an opportunity for members of voluntary and mandatory pension funds to transfer funds, when the conditions are met, into pension insurance company of their choice. Raiffeisen mirovinsko osiguravajuće društvo d.d. is currently the only pension insurance company in Croatia. The pension company pays out pensions, in accordance with the Act on Pension Insurance Companies and conditions of concluded pension contracts under mandatory and voluntary pension insurance. Pensions are paid from the assets covering technical provisions calculated by the certified actuary of the pension insurance company and in accordance with the good actuarial practice and law. The Management believes that the calculated technical provisions are sufficient.

f) Deferred taxes

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.

g) Classification of lease contracts

The Group is the lessor in operating and finance leases. Lease where the Group as lessor transfer substantially all the risks and rewards to the lessee than the contract is classified as finance lease. All other leases are classified as operating lease and included in property and equipment under operating leases at cost net of accumulated depreciation. The requirements of IAS 17 Leases are taken into consideration to determine whether lease should be classified as finance of operating lease.

h) Determination of control

In accordance with requirements of IFRS 10 Consolidated Financial Statements, the Group regularly reassess whether they have control over significant activities of debtors in financial difficulties which are unable to regularly service its liabilities to the Group. The Group concluded in 2015 that there are no debtors which should be consolidated, which is consistent with the conclusion reached in 2014.

5. 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 for the Group.

5. Segment reporting (continued)

Group 2015 HRK millions	Corporate	Retail	Treasury	Asset management	Shared services	Unallocated	Total
Net interest income	324	535	124	26	24	–	1,033
Net fee and commission income	180	115	10	152	5	–	462
Trading and other income	276	5	52	146	16	–	495
Operating income	**780**	**655**	**186**	**324**	**45**	**–**	**1,990**
Operating expenses	(440)	(466)	(56)	(226)	(43)	–	(1,231)
Impairment losses on loans and advances to customers and other assets	(180)	(139)	–	–	–	–	(319)
Provisions for liabilities and charges	(2)	(620)	–	–	–	–	(622)
Operating expenses	**(622)**	**(1,225)**	**(56)**	**(226)**	**(43)**	**–**	**(2,172)**
Profit/(loss) before tax	**158**	**(570)**	**130**	**98**	**2**	**–**	**(182)**
Income tax expense	–	–	–	–	–	32	32
Profit/(loss) for the year	**158**	**(570)**	**130**	**98**	**2**	**32**	**(150)**
Segment assets	8,428	10,196	12,030	559	1,243	–	32,456
Unallocated assets	–	–	–	–	–	2,602	2,602
Total assets	**8,428**	**10,196**	**12,030**	**559**	**1,243**	**2,602**	**35,058**
Segment liabilities	11,017	14,566	3,363	403	1,315	–	30,664
Equity	–	–	–	–	–	4,394	4,394
Total equity and liabilities	**11,017**	**14,566**	**3,363**	**403**	**1,315**	**4,394**	**35,058**

5. Segment reporting (continued)

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	115	4	–	411
Trading and other income	288	30	55	182	10	–	565
Operating income	**879**	**706**	**211**	**321**	**41**	**–**	**2,158**
Operating expenses	(489)	(460)	(42)	(249)	(46)	–	(1,286)
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)**	**(249)**	**(47)**	**–**	**(1,693)**
Profit/(loss) before tax	**106**	**137**	**156**	**72**	**(6)**	**–**	**465**
Income tax expense	–	–	–	–	–	(101)	(101)
Profit/(loss) 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	13,955	3,464	389	1,477	–	30,770
Equity	–	–	–	–	–	5,117	5,117
Total equity and liabilities	**11,485**	**13,955**	**3,464**	**389**	**1,477**	**5,117**	**35,887**

5. Segment reporting (continued)

Bank 2015 HRK millions	Corporate	Retail	Treasury	Unallocated	Total
Net interest income	270	535	124	–	929
Net fee and commission income	196	115	10	–	321
Trading and other income	86	5	107	–	198
Operating income	**552**	**655**	**241**	**–**	**1,448**
Operating expenses	(300)	(466)	(56)	–	(822)
Impairment losses on loans and advances to customers and other assets	(175)	(139)	–	–	(314)
Provisions for liabilities and charges	(3)	(620)	–	–	(623)
Operating expenses	**(478)**	**(1,225)**	**(56)**	**–**	**(1,759)**
Profit/(loss) before tax	**74**	**(570)**	**185**	**–**	**(311)**
Income tax expense	–	–	–	70	70
Profit/(loss) for the year	**74**	**(570)**	**185**	**70**	**(241)**
Segment assets	7,401	10,196	12,030	–	29,627
Unallocated assets	–	–	–	1,554	1,554
Total assets	**7,401**	**10,196**	**12,030**	**1,554**	**31,181**
Segment liabilities	9,237	14,567	3,363	–	27,167
Equity	–	–	–	4,014	4,014
Total equity and liabilities	**9,237**	**14,567**	**3,363**	**4,014**	**31,181**

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
Trading 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/(loss) 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	13,957	3,464	–	26,592
Equity	–	–	–	4,827	4,827
Total equity and liabilities	**9,171**	**13,957**	**3,464**	**4,827**	**31,419**

6. Cash and current accounts with banks

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Cash in hand	762	571	762	571
Items in the course of collection	1	1	1	1
Gyro account with the Croatian National	1,213	1,012	1,213	1,012
Bank	1,735	1,213	1,735	1,213
Current accounts with other banks				
– with parent bank	24	8	20	8
– with other Raiffeisen Bank International AG ("the RBI") group banks	18	2	18	2
with other banks	121	53	121	53
	2,661	1,848	2,657	1,848
Impairment allowance	(24)	(14)	(24)	(14)
	2,637	1,834	2,633	1,834

a) Movement in impairment allowance for cash and current accounts with banks

Unidentified losses

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
At 1 January	14	13	14	13
Net charge recognised in profit or loss (Note 33)	10	1	10	1
At 31 December	24	14	24	14

7. Obligatory reserve with the Croatian National Bank

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Obligatory reserve in domestic currency	1,730	1,718	1,730	1,718
Obligatory reserve in foreign currency	272	267	272	267
	2,002	1,985	2,002	1,985
Impairment allowance	(25)	(22)	(25)	(22)
	1,977	1,963	1,977	1,963

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

Unidentified losses

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
At 1 January	22	23	22	23
Net charge/(release) recognised in profit or loss (Note 33)	3	(1)	3	(1)
At 31 December	25	22	25	22

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

The HRK obligatory reserve requirement at 31 December 2015 represented 12% of the relevant HRK sources of funds – deposits, borrowings and other financial liabilities (2014: 12%). At least 70% (2014: 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 the end of the year the Bank held 70% (2014: 70%) of the total requirement in a special obligatory reserve deposit account with the CNB.

The foreign currency obligatory reserve requirement at 31 December 2015 represented 12% (2014: 12%) of both foreign currency personal and corporate deposits and foreign currency borrowings.

At 31 December 2015 60% (2014: 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% (2014: 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.

8. Financial assets at fair value through profit or loss

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Trading instruments				
Debt securities:				
– Domestic government bonds, listed	683	511	683	511
– Foreign government bonds, listed	638	512	638	512
– Treasury bills issued by the Ministry of Finance	61	529	61	529
– Bonds issued by banks, listed	326	197	326	197
– Securities issued by companies, listed	–	36	–	36
	1,708	**1,785**	**1,708**	**1,785**
Equtiy instruments, listed	**8**	**9**	**8**	**9**
Positive fair value of OTC derivative instruments	69	88	79	100
Positive fair value of OTC spot transactions	1	–	1	–
	70	**88**	**80**	**100**
Accrued interest	12	16	12	16
Total trading assets	**1,798**	**1,898**	**1,808**	**1,910**
Financial assets designated at fair value through profit or loss				
Debt securities:				
– Domestic government bonds, listed	256	224	–	–
– Bonds issued by banks, listed	22	18	22	18
– Securities issued by companies, listed	140	267	123	266
– Treasury bills issued by the Ministry of Finance	66	534	–	472
	484	**1,043**	**145**	**756**
Equity investments	1	–	–	–
Investments in investment funds managed by related and third parties	1	11	–	–
Accrued interest	7	5	1	3
Total financial assets designated at fair value through profit or loss	**493**	**1,059**	**146**	**759**
Total	**2,291**	**2,957**	**1,954**	**2,669**

The amount of HRK 66 million (2014: HRK 62 million) treasury bills issued by the Ministry of Finance represent the guarantee deposit in accordance with the Law on Mandatory and Voluntary Pension Funds.
In the financial statement for the year 2015 treasury bills are included in financial assets at fair value through profit or loss (2014: restated).

9. Placements with and loans to other banks

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Loans	130	118	182	170
Deposits	843	962	826	942
Treasury bills with the Croatian National Bank	–	370	–	370
	973	1,450	1,008	1,482
Impairment allowance	(18)	(22)	(17)	(21)
	955	1,428	991	1,461

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 2015. Alternative presentation of these treasury bills would be within Obligatory reserve with the Croatian National Bank.

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

Group			2015			2014
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	5	17	22	5	16	21
Net (release)/charge recognised in profit or loss (Note 33)	–	(4)	(4)	–	1	1
At 31 December	5	13	18	5	17	22

Bank			2015			2014
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	5	16	21	5	16	21
Net release recognised in profit or loss (Note 33)	–	(4)	(4)	–	–	–
At 31 December	5	12	17	5	16	21

10. Financial assets available for sale

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Debt securities:				
– Domestic government bonds, listed	985	829	705	608
– Securities issued by companies, listed	–	4	–	–
– Bonds issued by banks, listed	908	341	908	341
– Foreign government bonds, listed	2,349	1,708	2,349	1,708
Treasury bills issued by the Ministry of Finance	682	15	682	–
Treasury bills issued by the foreign government, listed	–	398	–	398
Equity securities, not listed	60	6	60	6
Equity securities, listed	4	–	4	–
Accrued interest	40	27	36	22
	5,028	**3,328**	**4,744**	**3,083**

Government bonds and treasury bills issued by foreign government consist of financial instruments issued by Republic of Germany, Republic of Austria, Republic of France, Republic of Poland, Kingdom of Netherlands and United States of America.

11. Loans and advances to customers

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Loans to companies and similar entities				
– denominated in domestic currency	3,400	3,646	3,380	3,580
– denominated in or linked to foreign currency	6,592	7,927	5,627	6,626
Loans to individuals				
– denominated in domestic currency	5,195	5,171	5,093	5,062
– denominated in or linked to foreign currency	6,546	6,902	5,959	6,244
Finance lease receivables, denominated in or linked to foreign currency	662	708	–	–
– accrued interest	154	177	138	149
– less deferred income	(100)	(118)	(96)	(112)
	22,449	**24,413**	**20,101**	**21,549**
Impairment allowance	(2,823)	(2,633)	(2,714)	(2,514)
	19,626	**21,780**	**17,387**	**19,035**

11. Loans and advances to customers (continued)

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

Group			2015			2014
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	**2,420**	**213**	**2,633**	**2,109**	**222**	**2,331**
Increase in impairment losses	334	32	366	443	(19)	424
Amounts recovered during the year	(51)	–	(51)	(48)	–	(48)
Net charge/(release) recognised in profit or loss (Note 33)	283	32	315	395	(19)	376
Net foreign exchange loss	8	–	8	5	–	5
Write offs	(133)	–	(133)	(94)	–	(94)
Acquisition of Raiffeisen stambena štedionica d.d.	–	–	–	5	10	15
At 31 December	**2,578**	**245**	**2,823**	**2,420**	**213**	**2,633**

Bank			2015			2014
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	**2,326**	**188**	**2,514**	**2,025**	**220**	**2,245**
Increase in impairment losses	317	35	352	419	(32)	387
Collection of non-performing loans	(43)	–	(43)	(31)	–	(31)
Net charge/(release) recognised in profit or loss (Note 33)	274	35	309	388	(32)	356
Net foreign exchange loss	9	–	9	4	–	4
Write offs	(118)	–	(118)	(91)	–	(91)
At 31 December	**2,491**	**223**	**2,714**	**2,326**	**188**	**2,514**

11. 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 2015	Group 2014
Gross investment in finance leases	724	782
Deferred fee income	(2)	(2)
Unearned finance income	(60)	(72)
Net investment in finance leases	**662**	**708**
Impairment losses	(73)	(81)
Net investment in finance leases	**589**	**627**
Gross investment in finance leases, with remaining maturities		
Less than one year	286	343
More than one and less than five years	379	404
More than five years	59	35
	724	**782**

12. Financial investments held to maturity

HRK millions	Group 2015	Group 2014
Debt securities		
– Government bonds, listed	279	343
– Corporate bonds, listed	–	3
Accrued interest	6	7
	285	353
Impairment allowance	(2)	(4)
	283	349

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

Group			2015			2014
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	2	2	4	2	7	9
Net release recognised in profit or loss (Note 33)	–	–	–	–	(8)	(8)
Write off	(2)	–	(2)	–	–	–
Acquisition of Raiffeisen stambena štedionica d.d.	–	–	–	–	3	3
At 31 December	–	2	2	2	2	4

13. Investments in subsidiaries

The Group and the Bank had the following investments in subsidiaries, all incorporated in Croatia, as at 31 December 2015 and 31 December 2014:

	Nature of business	Ownership 2015 %	Ownership 2014 %	Investments 2015 HRK millions	Investments 2014 HRK millions
Investment in subsidiaries					
Direct holding					
Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	Pension fund management	100	100	144	144
Raiffeisen stambena štedionica d.d.	Saving bank	100	100	56	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	23
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	–	–
Total		n/p	n/p	366	366

The Bank has a 50% share in Raiffeisen Leasing d.o.o (the remaining 50% is owned by the RBI Group), but considers that it has control through Supervisory Board thus it is considered as a subsidiary, not as an associate.

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 represent the 100% shareholding in Raiffeisen stambena štedionica d.d. The net book value at acquisition did not cause neither positive nor negative goodwill.

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

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

14. Property, plant and equipment

Group 2015 HRK millions	Land and buildings	Equipment	Office furniture	Assets under operating leases	Assets under construction	Total
Gross carrying amount						
1 January 2015	881	456	80	1,070	4	2,491
Additions	–	–	–	–	241	241
Disposals	–	(41)	(2)	(211)	–	(254)
Transfer from leasehold improvements (Net principle)	2	–	–	–	–	2
Transfers to other assets	(2)	–	–	(12)	–	(14)
Transfer into use	34	26	1	179	(240)	–
At 31 December 2015	915	441	79	1,026	5	2,466
Accumulated depreciation and impairment losses						
1 January 2015	225	389	77	283	–	974
Charge for the year (Note 32)	16	26	1	110	–	153
Disposals	–	(41)	(2)	(100)	–	(143)
At 31 December 2015	241	374	76	293	–	984
Carrying amount						
At 1 January 2015	656	67	3	787	4	1,517
At 31 December 2015	674	67	3	733	5	1,482

There were no capitalized borrowing costs related to the acquisition of property, plant and equipment during the year. A building with the carrying amount of approximately HRK 223 million (2014: HRK 228 million) has been pledged to secure borrowings of the Group (see Note 22).

14. Property, plant and equipment (continued)

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 Raiffeisen stambena štedionica d.d.	–	10	2	–	–	12
Disposals	–	(20)	(2)	(393)	–	(415)
Transfer to inventory and foreclosed assets	–	–	–	–	(5)	(5)
Transfer into use	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 (Note 32)	15	28	1	114	–	158
Acquisition of Raiffeisen stambena štedionica d.d.	–	9	1	–	–	10
Disposals and transfers	–	(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**

14. Property, plant and equipment (continued)

Future minimum lease payments under operating lease

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. Future minimum lease payments for operating lease (disclosure is only illustrative as there are no non-cancellable lease contracts) at 31 December were as follows:

HRK millions	Group 2015	Group 2014
Up to one year	134	139
More than one and less than five years	289	312
Over five years	10	44
	433	**495**

Bank 2015 HRK millions	Land and buildings	Equipment	Office furniture	Assets under construction	Total
Gross carrying amount					
1 January 2015	466	431	74	5	976
Additions	–	–	–	61	61
Transfer from leasehold improvements (Net principle)	2	–	–	–	2
Disposals	–	(39)	(2)	–	(41)
Transfers into use	37	23	1	(61)	–
At 31 December 2015	**505**	**415**	**73**	**5**	**998**
Accumulated depreciation					
1 January 2015	106	371	71	–	548
Charge for the year (Note 32)	8	24	1	–	33
Disposals	–	(39)	(2)	–	(41)
At 31 December 2015	**114**	**356**	**70**	**–**	**540**
Carrying amount					
At 1 January 2015	**360**	**60**	**3**	**5**	**428**
At 31 December 2015	**391**	**59**	**3**	**5**	**458**

Assets under construction comprise equipment and office furniture at cost of HRK 5 million (2014: HRK 5 million), which are being prepared for use by the Bank.

There were no capitalized borrowing costs related to the acquisition of property, plant and equipment during the year (2014: 0).

14. Property, plant and equipment (continued)

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)
Transfer into use	2	23	1	(26)	–
Transfer to inventory and foreclosed assets	–	–	–	(5)	(5)
At 31 December 2014	**466**	**431**	**74**	**5**	**976**
Accumulated depreciation					
1 January 2014	98	362	72	–	532
Charge for the year (Note 32)	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**

15. Intangible assets

Group 2015 HRK millions	Leasehold improvement	Software	Assets under construction	Total
Gross carrying amount				
1 January 2015	217	545	2	764
Additions	–	–	45	45
Transfer to property, plant and equipment	(24)	–	–	(24)
Transfer into use	3	35	(38)	–
At 31 December 2015	196	580	9	785
Accumulated amortisation				
1 January 2015	150	420	–	570
Charge for the year (Note 32)	10	32	–	42
Transfer to property, plant and equipment	(22)	–	–	(22)
At 31 December 2015	138	452	–	590
Carrying amount				
At 1 January 2015	67	125	2	194
At 31 December 2015	58	128	9	195

Assets under construction comprise software in the process of installation in the amount of HRK 9 million (2014: HRK 9 million).

15. Intangible assets (continued)

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)
Transfer into use	8	28	(36)	–
At 31 December 2014	**217**	**545**	**2**	**764**
Accumulated amortisation				
1 January 2014	138	363	–	501
Charge for the year (Note 32)	12	30	–	42
Acquisition of RSŠ	–	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**

Bank 2015 HRK millions	Leasehold improvement	Software	Assets under construction	Total
Gross carrying amount				
1 January 2015	206	498	3	707
Additions	–	–	43	43
Transfer to property, plant and equipment	(24)	–	–	(24)
Transfer into use	3	35	(38)	–
At 31 December 2015	**185**	**533**	**8**	**726**
Accumulated amortisation				
1 January 2015	140	381	–	521
Charge for the year (Not 32)	10	29	–	39
Transfer to property, plant and equipment	(22)	–	–	(22)
At 31 December 2015	**128**	**410**	**–**	**538**
Carrying amount				
At 1 January 2015	**66**	**117**	**3**	**186**
At 31 December 2015	**57**	**123**	**8**	**188**

Assets under construction comprise software in the process of installation in the amount of HRK 8 million (2014: HRK 2 million) and leasehold improvements HRK 1 million in 2014.

15. Intangible assets (continued)

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)
Transfer into use	7	27	(34)	–
At 31 December 2014	**206**	**498**	**3**	**707**
Accumulated amortisation				
1 January 2014	129	354	–	483
Charge for the year (Note 32)	11	28	–	39
Disposals	–	(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**

16. Deferred tax assets

Recognised deferred tax assets and liabilities

Movements in temporary differences and underlying positions for 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	2015	2014	2015	2014	2015	2014	2015	2014
Property, plant and equipment	–	–	(3)	(3)	–	–	–	–
Deferred fee and commission expense	–	–	(2)	(2)	–	–	–	–
Tax losses carried forward	135	22	–	–	113	16	–	–
Deferred fee and commission income	20	26	–	–	(6)	(5)	–	–
Unrealised losses on financial assets at fair value through profit or loss	49	90	–	–	(41)	(82)	–	–
Other provisions	25	24	–	–	1	9	–	–
Deferred tax assets/(liabilities)	**229**	**162**	**(5)**	**(5)**	**67**	**(62)**	**–**	**–**
Unrealised losses for financial assets available for sale	(18)	(1)	–	–	–	–	(17)	(1)
Offset	(5)	(5)	5	5	–	–	–	–
Net deferred tax assets/ movements	**206**	**156**	**–**	**–**	**67**	**(62)**	**(17)**	**(1)**

16. Deferred tax assets (continued)

Recognised deferred tax assets and liabilities (continued)

Bank	Assets		Liabilities		Net credit/(charge) through statement of profit or loss		Net credit/(charge) through other comprehensive income	
HRK millions	2015	2014	2015	2014	2015	2014	2015	2014
Deferred fee and commission expense	–	–	(1)	(1)	–	–	–	–
Deferred fee and commission income	19	23	–	–	(4)	(5)	–	–
Unrealised losses on financial assets at fair value through profit or loss	46	87	–	–	(41)	(86)	–	–
Tax losses carried forward	134	18	–	–	116	18	–	–
Other provisions	17	18	–	–	(1)	9	–	–
Deferred tax assets/(liabilities)	**216**	**146**	**(1)**	**(1)**	**70**	**(64)**	**–**	**–**
Unrealised gains/losses for financial assets available for sale	(14)	1	–	–	–	–	(15)	1
Offset	(1)	(1)	1	1	–	–	–	–
Net deferred tax assets/ movements	**201**	**146**	**–**	**–**	**70**	**(64)**	**(15)**	**1**

17. Other assets

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Accrued fee and commission receivables	36	45	22	22
Deferred fee and commission expenses	4	2	1	–
Inventory and foreclosed assets	141	171	86	85
Prepayments	82	82	84	59
Receivables from credit and debit card business	31	27	31	27
Receivables in respect of operating leases	11	10	–	–
Government housing savings subsidies receivable	6	8	–	–
Receivables for unsettled securities sold	18	22	18	22
Receivables from repurchase of domestic currency cash	65	37	65	37
Other assets	52	28	32	35
	446	**432**	**339**	**287**
Impairment allowance	(72)	(90)	(66)	(82)
	374	**342**	**273**	**205**

Movement in impairment allowance

Group			2015			2014
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	**76**	**14**	**90**	**54**	**10**	**64**
Charges	12	–	12	26	4	30
Release	(4)	(13)	(17)	(2)	–	(2)
Net charge/(release) recognised in profit or loss (Note 33)	8	(13)	(5)	24	4	28
Write offs	(13)	–	(13)	(2)	–	(2)
At 31 December	**71**	**1**	**72**	**76**	**14**	**90**

17. Other assets (continued)

Movement in impairment allowance (continued)

Bank			2015			2014
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	68	14	82	46	10	56
Charges	12	–	12	25	4	29
Release	(3)	(13)	(16)	(2)	–	(2)
Net charge/(release) recognised in profit or loss (Note 33)	9	(13)	(4)	23	4	27
Write offs	(12)	–	(12)	(1)	–	(1)
At 31 December	65	1	66	68	14	82

18. Financial liabilities at fair value through profit or loss

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Negative fair value of OTC derivative instruments	102	241	102	241
Negative fair value of OTC spot transactions	1	–	1	–
Fair value hedge	6	6	6	6
Accrued interest	2	3	2	3
	111	250	111	250

19. Deposits from banks

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Current accounts and demand deposits				
– From ultimate parent bank	3	70	3	70
– From RBI group banks other than ultimate parent bank	4	5	10	7
– From other banks	154	184	155	184
Time deposits				
– From other RBI group banks	–	–	83	–
– From other banks	85	43	85	43
	246	302	336	304

20. Deposits from companies and other similar entities

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Current accounts and demand deposits	7,439	6,983	7,902	7,432
Time deposits	1,346	1,482	1,362	1,499
Accrued interest	9	9	9	9
	8,794	**8,474**	**9,273**	**8,940**

21. Deposits from individuals

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Current accounts and demand deposits	3,576	3,193	3,573	2,920
Time deposits	11,180	11,751	10,028	10,729
Accrued interest	90	109	90	109
	14,846	**15,053**	**13,691**	**13,758**

22. Borrowings

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
From ultimate parent bank	1,126	2,568	38	171
From other banks in Group	649	–	12	76
From other banks	2,132	2,395	1,413	1,827
From companies and other financial institutions	341	379	341	379
Accrued interest	4	5	1	2
Less deferred income	(1)	(2)	(3)	(4)
	4,251	**5,345**	**1,802**	**2,451**

Movements of outstanding borrowings

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
At 1 January	5,345	6,923	2,451	4,091
New borrowings	2,384	3,477	653	1,265
Repayment of borrowings	(3,483)	(5,069)	(1,303)	(2,907)
Foreign exchange differences	5	14	1	2
At 31 December	**4,251**	**5,345**	**1,802**	**2,451**

Borrowing from companies and other financial institutions relate to repurchase agreements.

23. Provisions for liabilities and charges

Group HRK millions	Total	Off balance sheet items Identified	Off balance sheet items Unidentified	Provisions for pension insurance	Provisions for unused holiday	Provision for court cases	Provisions for CHF conversion
At 1 January 2015	182	40	76	2	5	59	–
Provision released during the year	(1)	–	(1)	–	–	–	–
Provision created during the year	623	3	–	–	3	–	617
Provisions recognised in profit or loss	622	3	(1)	–	3	–	617
At 31 December 2015	804	43	75	2	8	59	617

Group HRK millions	Total	Off balance sheet items Identified	Off balance sheet items Unidentified	Provisions for pension insurance	Provisions for unused holidays	Provision for court cases
At 1 January 2014	172	35	72	2	4	59
Provision released during the year	(74)	(31)	(42)	–	–	(1)
Provision created during the year	84	36	46	–	1	1
Provisions recognised in profit or loss	10	5	4	–	1	–
At 31 December 2014	182	40	76	2	5	59

In May 2015, pursuant to the suit filed by the consumer protection association against eight Croatian banks subsidiaries of European banking grupations, including Raiffeisenbank Austria d.d., the Supreme Court of the Republic of Croatia ruled that the charged banks had not violated the collective interests and rights of consumers borrowers by using in the consumer loan agreements the provision stipulating the currency clause whereunder the loan principal was pegged to the CHF. The said ruling determined that the banks violated the collective interests and rights of consumers borrowers by using in the consumer loan agreements the provision stipulating the regular interest rate variable in keeping with the unilateral decision of the bank and of which there were no individual negotiations with the borrowers. The ruling did not determine the damage for the borrower that arose from the application of the contractual provision on the unilateral variability of the regular interest rate pursuant to the bank decision. On the basis of the Supreme Court ruling in the collective suit against the banks the borrowers can institute individual claims against the banks and in a litigation prove the damage that occurred because of the unilateral interest rate changes and claim damages from the creditor bank.

At the end of September 2015 the amendments to the regulations (Consumer Lending Act, and Credit Institutions Act) came into force, whereunder the borrowers of loans pegged to the CHF are allowed to convert the loans from the CHF to the EUR. Thus, the borrowers of loans pegged to the CHF were made equal to the borrowers of loans pegged to the EUR in their rights and obligations, and interest rates equal to the identical loan in EUR are applied for calculating the regular interest rate from the loan disbursement dates. Consequently, the borrowers who instituted individual suits against the banks to determine the damage that occurred because of the unilateral interest rate changes in the loans indexed to the CHF, lose the subject of their litigation by accepting the loan conversion from the CHF to the EUR.

Certain number of borrowers with the variable interest rate, instituted, on the basis of the ruling passed in the collective law suit, litigations against the Bank. In these individual law suits the Bank intends to prove that every change of the regular interest rates in the loan agreements with the borrowers was based on fair and justified reasons. The Bank points out also the objection of the statute of limitation, considering that the statute of limitation starts as on the first payment of the increased interest rate and not as on the passing of the first-instance court ruling (July 2013), of the second-instance court ruling (July 2014), or of the Supreme Court ruling in the collective suit. So far, not a single one of the individual litigations against the Bank have had the main hearing concluded or a first-instance court ruling passed. Should all borrowers, to whom this applies, successfully claim damages as under this ruling, the potential adverse impact on the Bank would be considerable. In any case, the potential adverse impact depends, in the end, on the actual number of damages claims.

23. Provisions for liabilities and charges (continued)

Bank HRK millions	Total	Off balance sheet items Identified	Off balance sheet items Unidentified	Provisions for pension insurance	Provisions for unused holiday	Provision for court cases	Provisions for CHF conversion
At 1 January 2015	170	40	76	2	3	49	–
Provision released during the year	(1)	–	(1)	–	–	–	–
Provision created during the year	624	3	–	–	3	1	617
Provisions recognised in profit or loss	623	3	(1)	–	3	1	617
At 31 December 2015	793	43	75	2	6	50	617

Bank HRK millions	Total	Off balance sheet items Identified	Off balance sheet items Unidentified	Provisions for pension insurance	Provisions for unused holidays	Provision for court cases
At 1 January 2014	159	35	72	2	2	48
Provision released during the year	(73)	(31)	(42)	–	–	–
Provision created during the year	84	36	46	–	1	1
Provisions recognised in profit or loss	11	5	4	–	1	1
At 31 December 2014	170	40	76	2	3	49

24. Other liabilities

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Technical reserves for pension insurance	378	354	–	–
Liabilities in respect of credit and debit card business	76	73	76	73
Liabilities to employees	72	72	63	61
Liabilities to suppliers	69	58	62	51
Deferred fee and commission income prepayments	15	28	6	8
Liabilities for prepaid loans and advances from individuals	20	20	12	13
Repurchase of domestic currency cash	53	12	53	12
Government housing savings subsidies	6	8	–	–
Other liabilities	77	75	43	37
	766	**700**	**315**	**255**

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 2015.

25. Subordinated liabilities

The Bank has signed a subordinated loan agreement with RBI amounting to EUR 60 million as of 31 January 2014 and EUR 50 million as of 26 May 2015. The Bank use the subordinated loan to increase its Tier 2 Capital. Repayment of the loan mature on 20 February 2021 and 28 May 2022. Interest agreed consists of 3M EURIBOR increased by interest margin in the amount of 6.56% and 6.75% fixed.

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Loan	840	460	840	460
Accrued interest	6	4	6	4
	846	**464**	**846**	**464**

26. Interest income

a) Analysis by product

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Derivative financial instruments	17	28	20	32
Financial assets at fair value through profit or loss	64	106	51	96
Financial assets available for sale	47	37	33	23
Placements with banks	3	4	5	4
Loans and advances to customers and similar entities	491	675	395	550
Loans and advances to individuals	812	858	767	808
Financial instruments held to maturity	18	24	–	4
	1,452	1,732	1,271	1,517

b) Analysis by source

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Companies	411	612	314	490
Individuals	812	858	767	808
State and the public sector	202	229	162	186
Banks and other financial institutions	25	30	26	30
Other organisations	2	3	2	3
	1,452	1,732	1,271	1,517

27. Interest expense

a) Analysis by product

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Derivative financial instruments	25	52	25	53
Derivative financial instruments in fair value hedges	1	1	1	1
Deposits from banks	1	1	1	2
Deposits from companies and other similar entities	36	39	38	40
Deposits from individuals	236	301	199	262
Borrowings	74	129	32	74
Subordinated liabilities	46	27	46	27
	419	550	342	459

27. Interest expense (continued)

b) Analysis by recipient

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Companies	34	39	36	40
Individuals	236	301	199	262
State and public sector	1	1	1	1
Banks and other financial institutions	147	208	105	155
Other organizations	1	1	1	1
	419	550	342	459

28. Fee and commission income

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Domestic payment transactions	105	103	106	105
Investment management, custody and consultancy fees	176	147	28	29
Credit cards	200	165	200	165
Foreign exchange payment transactions	76	72	76	71
Recharge of credit insurance costs (Note 29)	17	19	17	19
Guarantees and letter of credits	37	40	37	40
Loans and accounts administration fee	44	44	38	36
Other fees and commission income	49	38	52	48
	704	628	554	513

29. Fee and commission expense

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Credit card related charges	163	129	163	129
Domestic payment transactions	22	23	22	22
Rechargeable credit insurance costs (Note 28)	26	26	26	26
Other fees and commission expense	31	39	22	27
	242	217	233	204

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

30. Net trading gain and gain on financial assets available for sale

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Gains less losses from trading financial instruments				
Debt securities	(9)	22	(9)	22
Treasury bills	2	(4)	2	(4)
Equity securities	(1)	1	(1)	1
Derivative financial instruments	(25)	115	(18)	121
	(33)	**134**	**(26)**	**140**
Gains less losses from financial assets designated at fair value through profit or loss				
Realised gain/(loss) on disposal of:				
– debt securities	4	7	4	5
– treasury bills	(1)	(1)	(1)	(1)
Unrealised gain/(loss) on:				
– debt securities	–	14	–	(1)
– treasury bills	–	(4)	–	(4)
– equity securities	(1)	–	–	–
	2	**16**	**3**	**(1)**
Gains less losses from financial assets available for sale	9	12	9	12
Gains less losses arising from trading in foreign currencies	64	106	66	107
Gains less losses arising from revaluation of monetary assets and liabilities, which are not trading with securities				
– foreign exchange translation loss on assets and liabilities in foreign currency	(67)	(178)	(86)	(172)
– foreign exchange translation gain on assets and liabilities with foreign currency clause	177	104	161	67
	110	**(74)**	**75**	**(105)**
	152	**194**	**127**	**153**

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

31. Other operating income

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Rental income from operating leases	164	168	–	–
Service contract revenue	2	2	–	–
Premium on pension insurance contracts	147	163	–	–
Dividend from subsidiaries	–	–	55	53
Other income	30	38	16	31
	343	371	71	84

32. Operating expenses

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Personnel expenses	424	426	363	364
Depreciation of property, plant and equipment	153	158	33	35
IT expenses	89	99	85	90
Increase in technical reserve for pension insurance	24	76	–	–
Office space expenses	74	71	86	88
Legal, advisory and consulting expenses	49	48	45	39
Deposit insurance expense	46	46	42	42
Amortisation of intangible assets	42	42	39	39
Communication expenses	37	39	32	36
Advertising, PR and promotional expenses	29	35	25	30
Resolution fund fee	18	–	18	–
REGOS, HANFA expenses	25	23	–	–
Loss on disposal of assets under operating lease	6	2	–	–
Other administrative expenses	215	221	54	90
	1,231	1,286	822	853

Personnel expenses of the Group include HRK 66 million (2014: 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 2,319 employees at 31 December 2014 (2014: 2,329 employees).

Personnel expenses of the Bank include HRK 57 million (2014: HRK 57 million) of defined pension contributions paid or payable into obligatory pension plans. Contributions are calculated as a percentage of employee's gross salaries. The Bank had 2,082 employees at 31 December 2014 (2014: 2,056 employees).

33. Impairment losses

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Cash and current accounts with banks (Note 6)	10	1	10	1
Obligatory reserve with the Croatian National Bank (Note 7)	3	(1)	3	(1)
Placements with and loans to other banks (Note 9)	(4)	1	(4)	–
Loans and advances to customers (Note 11)	315	376	309	356
Financial investments held to maturity (Note 12)	–	(8)	–	(7)
Other assets (Note 17)	(5)	28	(4)	27
	319	**397**	**314**	**376**
Hereof:				
Identified losses	**291**	**419**	**283**	**411**
Unidentified losses	**28**	**(22)**	**31**	**(35)**

34. Income tax expense

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Recognised in profit or loss				
- Current tax expense	(35)	(39)	–	(6)
- Deferred taxes	67	(62)	70	(64)
Income tax expense	**32**	**(101)**	**70**	**(70)**
Reconciliation of income tax expense at 20%				
(Loss)/profit before tax	**(182)**	**465**	**(311)**	**364**
Income tax at 20%	36	(93)	62	(73)
Adjustment of income tax from the previous year in the current year	(2)	6	(2)	6
Non-deductible expenses	(6)	(3)	(5)	(2)
Tax incentives and tax exempt income	4	2	15	14
Effects of previously unrecognised deferred tax benefit from tax losses available for future periods	–	(13)	–	(15)
Income tax expense	**32**	**(101)**	**70**	**(70)**
Effective income tax rate	**17.58%**	**21.70%**	**22.51%**	**19.23%**

34. Income tax expense (continued)

Deferred tax assets

As at 31 December 2015, the Bank has HRK 671 million gross tax losses (2014: HRK 89 million), 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 2015 were as follows:

Group HRK millions	Gross tax losses 2015	Tax benefit 2015	Gross tax losses 2014	Tax benefit 2014
31 December 2015	–	–	21	–
31 December 2016	7	–	7	–
31 December 2017	32	–	32	–
31 December 2018	8	1	22	4
31 December 2019	89	18	89	18
31 December 2020	583	116	–	–
	719	135	171	22

Bank HRK millions	Gross tax losses 2015	Tax benefit 2015	Gross tax losses 2014	Tax benefit 2014
31 December 2019	89	18	89	18
31 December 2020	582	116	–	–
	671	134	89	18

35. Share capital

Group and Bank HRK millions	2015 Total of ordinary shares	2014 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.

	2015 Ordinary Shares %	2014 Ordinary Shares %
Raiffeisen SEE Region Holding Gmbh	100	100
	100	100

36. 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.

37. Proposed dividends

Dividends payable are not accounted for until they have been ratified at the General Meeting of Shareholders.

At a meeting held on 20 April 2015, a dividend of HRK 81.18 per ordinary share, totalling HRK 294 million was proposed and paid on 28 April 2015; on 28 May HRK 94.06 per ordinary share in the amount of HRK 341 million was proposed and paid on 30 October 2015.

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

During 2015 the subsidiaries proposed and paid HRK 55 million of dividends from retained earnings (2014: HRK 53 million).

The Bank's expected dividend payment from subsidiaries in 2016 amounts to HRK 71 million.

38. Non-controlling interest

HRK millions	Group 2015	Group 2014
At 1 January	65	62
Share of retained profit for the year	6	3
Distribution of dividend	(3)	–
At 31 December	**68**	**65**

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

For the purpose of calculating earnings per share, earnings are calculated as the profit for the period attributable to equity holders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. Given that there is no effect of options, convertible bonds or similar effect, the weighted average number of ordinary shares used for diluted earnings per share was the same as used to calculate basic earnings per share.

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Net (loss)/profit for the year attributable to equity holders of the parent net of proposed dividend on preference shares	(156)	361	(241)	294
Weighted average number of ordinary shares outstanding during the year	3,621,432	3,621,432	3,621,432	3,621,432
E(Loss)/earnings per share attributable to equity holders of the parent in HRK	**(43)**	**100**	**(66)**	**81**

40. Cash and cash equivalents

HRK millions	Notes	Group 2015	Group 2014	Bank 2015	Bank 2014
Cash in hand	6	762	571	762	571
Items in the course of collection	6	1	1	1	1
Gyro account with the Croatian National Bank	6	1,735	1,213	1,735	1,213
Current accounts with other banks	6	163	63	159	63
Placements with and loans to other banks with original maturity up to three months		896	1,007	884	988
Impairment allowance		(35)	(25)	(35)	(25)
		3,522	**2,830**	**3,506**	**2,811**

41. 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 2015	Group 2014	Bank 2015	Bank 2014
Gyro account with the Croatian National Bank	6	1,735	1,213	1,735	1,213
Deposits with the Croatian National Bank	9	–	370	–	370
Obligatory reserve with the Croatian National Bank	7	2,002	1,985	2,002	1,985
Government bonds, direct exposure	8,10,12	2,237	1,907	1,406	1,136
Treasury bills issued by the Ministry of Finance	8,10,12	809	1,078	743	1,001
Loans and advances to customers	11	1,349	2,302	1,195	2,106
Current tax asset		4	39	9	43
Unidentified impairment losses		(65)	(64)	(61)	(62)
Deposits from the Republic of Croatia		(123)	(96)	(123)	(96)
		7,948	8,734	6,906	7,696

Current tax asset is not a financial asset, but is also presented for illustrative purposes.

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

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Loans to customers guaranteed by the State	754	848	602	656
Guarantees, letters of credit and undrawn lending facilities	6	6	6	6
	760	854	608	662

The total net direct and indirect on and off-balance-sheet exposure to Republic of Croatia represents 20% of the total assets and off-balance-sheet exposure of the Group (2014: 22%) and 19% of the total assets and off-balance-sheet exposure of the Bank (2014: 21%).

42. Repurchase and reverse repurchase 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
2015				
Securities at fair value through profit or loss	154	150	January 2016	150
Financial assets available for sale	288	276	January-April 2016	276
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

Bank HRK millions	Fair value of underlying assets	Carrying amount of corresponding liabilities	Repurchase date	Repurchase price
2015				
Securities at fair value through profit or loss	154	150	January 2016	150
Financial assets available for sale	288	276	January-April 2016	276
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

42. Repurchase and resale agreements (continued)

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	Fair value of assets held as collateral	Carrying amount of corresponding assets	Repurchase date	Repurchase price
Loans and advances to customers				
2015	152	136	January 2016	136
2014	155	140	January-February 2015	142

43. Commitments and contingent liabilities

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

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Guarantees	3,055	3,053	3,110	3,117
Letters of credit	106	124	106	124
Undrawn lending facilities	4,451	4,531	4,333	4,413
	7,612	**7,708**	**7,549**	**7,654**

At 31 December 2015, 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 116 million (2014: HRK 118 million), which are included in provisions for liabilities and charges (see Note 23).

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 instalment.

44. 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 2015, the total assets under custody held by the Group on behalf of customers were HRK 6,236 million (2014: HRK 6,287 million).

In addition, at 31 December 2015, total assets of investment and pension funds under Group management amounted to HRK 25,993 million (2014: HRK 22,871 million).

During 2015 the Group made income in the amount of HRK 157 million (2014: HRK 128 million) of fees on trust activities provided to companies, banks and individuals, and management of investment and pension funds.

As at 31 December 2015 the Group and the Bank managed loans on behalf of third parties as follows:

HRK millions	2015	2014
Assets		
– Loans to companies	146	164
Total assets	**146**	**164**
Liabilities		
– Financial institutions	146	164
Total liabilities	**146**	**164**

45. 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 2015 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 foreing exchange contracts – OTC							
– CHF	1,748	19	11	–	1,778	–	20
– EUR	2,936	1,194	159	–	4,289	–	–
– USD	153	29	–	–	182	1	1
– Other currencies	34	34	–	–	68	6	7
– HRK	1,902	705	–	–	2,607	49	15
– Cross currency swap – OTC	45	84	64	56	249	1	9
– Interest rate swap – OTC	32	147	820	242	1,241	9	50
– Futures	338	–	–	–	338	3	–
	7,188	**2,212**	**1,054**	**298**	**10,752**	**69**	**102**
Unsettled foreign currency spot transactions – OTC	2,777	–	–	–	2,777	1	1

Group 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	3,441	1,602	314	–	5,357	–	–
– USD	605	5	–	–	610	3	7
– Other currencies	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	–	–

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

Bank 2015 HRK millions	Up to 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total	Assets	Liabilities
	Notional amount, remaining life					Fair values	
– Forward foreign exchange contracts – OTC							
– CHF	1,748	19	11	–	1,778	–	20
– EUR	3,100	1,194	159	–	4,453	–	–
– USD	153	29	–	–	182	1	1
– Other currencies	34	34	–	–	68	6	7
– HRK	1,941	705	–	–	2,646	49	15
– Cross currency swap - OTC	45	84	64	56	249	1	9
– Interest rate swap - OTC	36	157	939	242	1,374	19	50
– Futures	338	–	–	–	338	3	–
	7,395	2,222	1,173	298	11,088	79	102
Unsettled foreign currency spot transactions – OTC	2,777	–	–	–	2,777	1	1

Bank 2014 HRK millions	Up to 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total	Assets	Liabilities
	Notional amount, remaining life					Fair values	
– Forward foreign exchange contracts – OTC							
– CHF	137	232	–	–	369	–	2
– EUR	3,610	1,602	314		5,526	–	–
– USD	605	5	–	–	610	3	6
– Other currencies	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	–	–

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

Fair value hedging	Average fixed interest rate		Notional amount		Fair value	
	2015 %	2014 %	2015 HRK millions	2014 HRK millions	2015 HRK millions	2014 HRK millions
Hedge item – loans to customers	6.56	7.32	123	106	6	6
Hedging instrument – Interest rate swap 1 to 5 years	1.113	1.2275	123	106	(6)	(6)

Interest rate related contracts

The hedge effectiveness ratio for the year ended was 99.51% (2014:100%).

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	2015	2014
Pay fixed swaps – notional amount	1,084	1,320
Pay variable swaps – notional amount	280	727
Average pay fixed rate	1.64%	1.71%
Average receive variable rate	(0.12%)	0.06%
Average pay variable rate	(0.06%)	0.08%
Average receive fixed rate	1.03%	1.77%

Bank HRK millions	2014	2013
Pay fixed swaps – notional amount	1,084	1,328
Pay variable swaps – notional amount	412	873
Average pay fixed rate	1.64%	1.84%
Average receive variable rate	(0.12%)	0.06%
Average pay variable rate	(0.09%)	0.07%
Average receive fixed rate	1.36%	1.86%

46. Related party transactions

Raiffeisenbank Austria d.d. and its subsidiaries are directly owned by Raiffeisen Bank International AG ("the RBI"), a Company founded in Austria. The ultimate parent bank is RBI, incorporated in Austria, to which 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 2015 and 2014, arising from transactions with related parties were as follows:

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Statement of total comprehensive income				
Interest, fee and commission income				
– Raiffeisen Leasing d.o.o.	–	–	21	22
– Raiffeisen stambena štedionica d.d.	–	–	5	3
– Raiffeisen Consulting d.o.o.	–	–	6	6
– Raiffeisen mirovinsko društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	–	–	1	–
– Raiffeisen mirovinsko osiguravajuće društvo d.d.	–	–	1	1
– Raiffeisen Factoring d.o.o.	–	–	3	8
– Raiffeisen Invest d.o.o.	–	–	5	4
– RBI	12	17	12	17
Total	**12**	**17**	**54**	**61**
Interest, fee and commission expense				
– Raiffeisen Leasing d.o.o.	–	–	(1)	(1)
– Raiffeisen stambena štedionica d.d.	–	–	(1)	–
– Raiffeisen mirovinsko društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	–	–	(1)	–
– Raiffeisen mirovinsko osiguravajuće društvo d.d.	–	–	–	(1)
– RBI	(114)	(167)	(86)	(120)
– RBI Group	(14)	(13)	(10)	(12)
Total	**(128)**	**(180)**	**(99)**	**(134)**

46. Related party transactions (continued)

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Trading and other income				
– Raiffeisen Leasing d.o.o.	–	–	7	1
– Raiffeisen stambena štedionica d.d.	–	–	2	1
– Raiffeisen mirovinsko društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	–	–	53	47
– Raiffeisen mirovinsko osiguravajuće društvo d.d.	–	–	1	8
– Raiffeisen Invest d.o.o.	–	–	1	1
– Raiffeisen Consulting d.o.o.	–	–	2	6
– Raiffeisen Factoring d.o.o.	–	–	4	4
– RBI	(133)	44	(133)	44
– RBI Group	12	–	12	–
Total	**(121)**	**44**	**(51)**	**112**
Operating expenses				
– Raiffeisen Leasing d.o.o.	–	–	(6)	(8)
– Raiffeisen Consulting d.o.o.	–	–	(18)	(17)
– Raiffeisen Factoring d.o.o.	–	–	(2)	(2)
– RBI	(37)	(36)	(37)	(36)
– RBI Group	(2)	(1)	(2)	(1)
Total	**(39)**	**(37)**	**(65)**	**(64)**
Assets				
Current accounts and placements with banks				
– Raiffeisen stambena štedionica d.d.	–	–	52	52
– RBI	36	17	32	17
– RBI Group	18	3	18	3
Total	**54**	**20**	**102**	**72**
Loans to customers				
– Raiffeisen Consulting d.o.o.	–	–	68	63
– Raiffeisen Leasing d.o.o.	–	–	353	372
Total	**–**	**–**	**421**	**435**
Accrued income and other assets				
– Raiffeisen Leasing d.o.o.	–	–	10	12
– Raiffeisen Consulting d.o.o.	–	–	15	12
– Raiffeisen stambena štedionica d.d.	–	–	1	–
– Raiffeisen Factoring d.o.o.	–	–	11	4
– RBI	15	4	15	16
– RBI Group	6	–	6	–
Total	**21**	**4**	**58**	**44**

46. Related party transactions (continued)

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Liabilities				
Deposits				
– Raiffeisen Leasing d.o.o.	–	–	41	28
– Raiffeisen stambena štedionica d.d.	–	–	90	2
– Raiffeisen Consulting d.o.o.	–	–	–	1
– Raiffeisen mirovinsko društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	–	–	76	70
– Raiffeisen mirovinsko osiguravajuće društvo d.d.	–	–	22	40
– Raiffeisen Factoring d.o.o.	–	–	401	396
– Raiffeisen Invest d.o.o.	–	–	9	9
– Raiffeisen Bonus d.o.o.	–	–	1	–
– RBI	3	70	3	70
– RBI Group	5	5	5	5
Total	**8**	**75**	**648**	**621**
Borrowings and subordinated liabilities				
– Raiffeisen stambena štedionica d.d.	–	–	12	76
– RBI	1,973	3,032	883	634
– RBI Group	649	–	–	–
Total	**2,622**	**3,032**	**895**	**710**
Accruals and other liabilities				
– Raiffeisen Leasing d.o.o.	–	–	–	1
– RBI	72	236	72	236
– RBI Group	2	8	2	8
Total	**74**	**244**	**74**	**245**
Off balance sheet exposure				
Derivative instruments				
– Raiffeisen Leasing d.o.o.	–	–	38	49
– Raiffeisen Consulting d.o.o.	–	–	297	315
– RBI	5,572	11,367	5,572	11,367
– RBI Group	60	16	60	16
Total	**5,632**	**11,383**	**5,967**	**11,747**

46. Related party transactions (continued)

2015 HRK millions	Exposure	Liabilities	Income	Expense
Group Key management personnel				
Short-term benefits (salaries and fees)	–	17	–	41
Long-term benefits	–	–	–	4
Loans and advances	37	–	1	–
Deposits	–	18	–	–
Total	**37**	**35**	**1**	**45**
Bank Key management personnel				
Short-term benefits (salaries and fees)	–	14	–	16
Long-term benefits	–	–	–	2
Loans and advances	10	–	1	–
Deposits	–	6	–	–
Total	**10**	**20**	**1**	**18**

2014 HRK millions	Exposure	Liabilities	Income	Expense
Group Key management personnel				
Short-term benefits (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 (salaries and fees)	–	15	–	16
Long-term benefits	–	–	–	9
Loans and advances	12	–	1	–
Deposits	–	8	–	–
Total	**12**	**23**	**1**	**25**

47. 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 43.

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 a credit exposure is classified as „Work-out" („WO") for the first time through the EWS system it has to be transferred to the Collections and Workout Division and reported to the Problem Loan Committee. However, in the case of default, the client has to be evidenced in the Default Data Base (DDB) and immediately transferred to Work-out Department.

According to local methodology (CNB) for those placements, Bank uses the 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 analysing 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 behaviour 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.

47. 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	2015 Group	2014 Group	2015 Bank	2014 Bank
Cash and current accounts with banks	6	1,874	1,262	1,870	1,262
Obligatory reserve with the Croatian National Bank	7	1,977	1,963	1,977	1,963
Financial assets at fair value through profit or loss	8	2,281	2,937	1,946	2,660
Placements with, and loans and advances to banks	9	955	1,428	991	1,461
Loans and advances to customers – Corporate	11	8,781	10,628	7,216	8,635
– Retail (individuals)		10,845	11,152	10,171	10,400
Financial assets available for sale	10	4,964	3,322	4,680	3,077
Financial investments held to maturity	12	283	349	–	–
Current tax asset		4	39	9	43
Other assets	17	119	87	60	7
		32,083	**33,167**	**28,920**	**29,508**

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

HRK millions	Notes	2015 Group	2014 Group	2015 Bank	2014 Bank
Guarantees	43	3,055	3,053	3,110	3,117
Letters of credit and undrawn lending facilities	43	4,557	4,655	4,439	4,537
		7,612	**7,708**	**7,549**	**7,654**
Impairment losses		**(118)**	**(116)**	**(118)**	**(116)**
		7,494	**7,592**	**7,431**	**7,538**

47. 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:

HRK millions	Assets	2015 Group Off-balance sheet items	Assets	2014 Group Off-balance sheet items	Assets	2015 Bank Off-balance sheet items	Assets	2014 Bank Off-balance sheet items
Geographic region:								
Croatia	29,559	7,589	31,499	7,684	26,282	7,526	27,708	7,630
Rest of EU	4,508	15	3,826	20	4,504	15	3,826	20
Non EU	169	4	254	–	169	4	254	–
Other	811	4	373	4	811	4	373	4
Total	**35,047**	**7,612**	**35,952**	**7,708**	**31,766**	**7,549**	**32,161**	**7,654**
Impairment losses	**(2,964)**	**(118)**	**(2,785)**	**(116)**	**(2,846)**	**(118)**	**(2,653)**	**(116)**
	32,083	**7,494**	**33,167**	**7,592**	**28,920**	**7,431**	**29,508**	**7,538**

Concentration of credit risk by industry:

	Group 2015 %	Group 2014 %	Bank 2015 %	Bank 2014 %
Individuals	31	33	31	31
Financial services	15	13	16	15
Trade	11	10	9	9
Central and local government	14	11	15	13
Construction	6	7	6	6
Food and drink industry	3	4	3	4
Non-metal industry	5	6	5	6
Electronics	3	3	3	3
Wood and paper industry	1	1	1	1
Craft and services	8	8	8	9
Other business activities	3	4	3	3
Total	**100**	**100**	**100**	**100**

47. Risk management (continued)

Credit risk (continued)

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

Rating	2015 Group			2014 Group		
HRK millions	Total exposure	Impairment allowance	Net exposure	Total exposure	Impairment allowances	Net exposure
A	38,771	386	38,385	39,698	371	39,327
B1	644	119	525	735	124	611
B2	1,122	640	482	1,374	742	632
B3	1,106	921	185	1,046	857	189
C	1,016	1,016	–	807	807	–
Total	42,659	3,082	39,577	43,660	2,901	40,759

Rating	2015 Bank			2014 Bank		
HRK millions	Total exposure	Impairment allowance	Net exposure	Total exposure	Impairment allowances	Net exposure
A	35,543	360	35,183	36,012	331	35,681
B1	622	117	505	721	123	598
B2	1,119	639	480	1,310	706	604
B3	1,095	912	183	1,020	857	163
C	936	936	–	752	752	–
Total	39,315	2,964	36,351	39,815	2,769	37,046

Ageing of past due but not impaired receivables

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Up to 30 days	6,853	7,443	6,820	6,743
Up to 31 - 90 days	403	754	345	753
Up to 91 - 180 days	116	6	116	6
Up to 181 - 365 days	145	4	145	3
Over 365 days	212	1	61	1
	7,729	8,208	7,487	7,506

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Neither past due nor impaired	11,025	12,533	9,191	10,554
Past due but not impaired	7,729	8,208	7,487	7,506
Impaired loans and advances to customers	3,695	3,672	3,423	3,489
	22,449	24,413	20,101	21,549
Impairment losses	(2,823)	(2,633)	(2,714)	(2,514)
	19,626	21,780	17,387	19,035

47. Risk management (continued)

Credit risk (continued)

Loans and advances to customers (continued)

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Neither past due nor impaired	4,483	6,329	2,651	4,350
Past due but not impaired	3,691	3,515	3,931	3,549
Impaired loans and advances to customers	2,534	2,496	2,467	2,344
	10,708	12,340	9,049	10,243
Impairment losses	(1,927)	(1,805)	(1,833)	(1,701)
	8,781	10,535	7,216	8,542

Thereof loans and advances to individuals

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
Neither past due nor impaired	6,542	6,204	6,540	6,204
Past due but not impaired	4,038	4,693	3,556	3,957
Impaired loans and advances to customers	1,161	1,176	956	1,145
	11,741	12,073	11,052	11,306
Impairment losses	(896)	(828)	(881)	(813)
	10,845	11,245	10,171	10,493

47. Risk management (continued)

Liquidity risk

Important role which banks preform 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, 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 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 meetings.

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

Special attention is devoted to the new Basel III liquidity risk measures, especially Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The ratios are monitored on daily (LCR) and quarterly (NSFR) basis. From October 2015 on internal targets are set for LCR, which is, as well as NSFR, above 100%.

Short term liquidity gap is also analysed through liquidity surplus and the ratio of expected (modelled) 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.

			2015			2014
In EUR million	7 days	30 days	1 year	7 days	30 days	1 year
Liquidity gap	603	629	693	285	403	488
Liquidity ratio	254%	202%	140%	152%	139%	115%

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.

47. Risk management (continued)

Maturity analysis

The remaining contractual maturity of the Group's assets and liabilities as at 31 December 2015 and 31 December 2014 is presented in the tables below:

The items with undefined maturity are included in terms over 5 years, obligatory reserve in the category up to one month and not according to the maturity of the related liabilities. Demand deposits from retail and corporate customers are shown in the category up to one month although the Bank's experience is that these deposits have much longer maturity. Mismatch in the category up to one year would have been be eliminated if their maturity was presented in accordance with expected maturities, and liquid financial assets available for sale and at fair value through profit or loss for which there is an active secondary market in the up-to-one-month category.

Group 2015 HRK millions	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Assets						
Cash and current accounts with banks	2,637	–	–	–	–	2,637
Obligatory reserve with the Croatian National Bank	1,977	–	–	–	–	1,977
Financial assets at fair value through profit or loss	1,864	2	425	–	–	2,291
Placements with and loans to other banks	872	12	71	–	–	955
Financial assets available for sale	36	64	2,004	2,682	242	5,028
Loans and advances to customers	2,256	1,262	3,499	7,843	4,766	19,626
Financial investments held to maturity	3	3	–	176	101	283
Property, plant and equipment	–	–	–	–	1,482	1,482
Intangible assets	–	–	–	–	195	195
Deferred tax asset	–	–	–	206	–	206
Other and Current tax asset	198	7	15	129	29	378
Total assets	**9,843**	**1,350**	**6,014**	**11,036**	**6,815**	**35,058**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	111	–	–	–	–	111
Deposits from banks	244	2	–	–	–	246
Deposits from companies and other similar entities	7,972	132	502	170	18	8,794
Deposits from individuals	5,188	2,308	5,672	1,601	77	14,846
Borrowings	469	509	1,148	1,841	284	4,251
Provisions for liabilities and charges	1	617	51	133	2	804
Other liabilities	343	26	94	194	109	766
Subordinated liabilities	–	–	6	–	840	846
Equity attributable to the equity holders of the parent	–	–	–	–	4,326	4,326
Non-controlling interest	–	–	–	–	68	68
Total liabilities and equity	**14,328**	**3,594**	**7,473**	**3,939**	**5,724**	**35,058**
Maturity gap	**(4,485)**	**(2,244)**	**(1,459)**	**7,097**	**1,091**	**–**

47. Risk management (continued)

Maturity analysis (continued)

Group 2014 HRK millions	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Assets						
Cash and current accounts with 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	1,923	1	1,033	–	–	2,957
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	8	2	60	43	236	349
Property, plant and equipment	–	–	–	–	1,517	1,517
Intangible assets	–	–	–	–	194	194
Deferred tax asset	–	–	–	156	–	156
Other and Current tax asset	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 liabilities and equity	**13,994**	**3,620**	**8,170**	**3,786**	**6,317**	**35,887**
Maturity gap	**(4,292)**	**(2,192)**	**(2,643)**	**4,852**	**4,275**	**–**

47. Risk management (continued)

Maturity analysis (continued)

The remaining contractual maturity of the Bank's assets and liabilities as at 31 December 2015 and 31 December 2014 is presented in the tables below:

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

Bank 2015 HRK millions	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Assets						
Cash and current accounts with banks	2,633	–	–	–	–	2,633
Obligatory reserve with the Croatian National Bank	1,977	–	–	–	–	1,977
Financial assets at fair value through profit or loss	1,807	1	146	–	–	1,954
Placements with and loans to other banks	872	–	68	15	36	991
Financial assets available for sale	35	61	2,006	2,462	180	4,744
Loans and advances to customers	2,162	761	2,578	7,073	4,813	17,387
Investments in subsidiaries	–	–	–	–	366	366
Property, plant and equipment	–	–	–	–	458	458
Intangible assets	–	–	–	–	188	188
Deferred tax asset	–	–	–	201	–	201
Other and Current tax asset	176	1	11	93	1	282
Total assets	**9,662**	**824**	**4,809**	**9,844**	**6,042**	**31,181**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	111	–	–	–	–	111
Deposits from banks	251	7	78	–	–	336
Deposits from companies and other similar entities	8,425	126	533	166	23	9,273
Deposits from individuals	5,162	2,262	5,427	770	70	13,691
Borrowings	315	83	336	784	284	1,802
Provisions for liabilities and charges	–	617	50	124	2	793
Other liabilities	281	–	27	7	–	315
Subordinated liabilities	–	–	6	–	840	846
Equity	–	–	–	–	4,014	4,014
Total liabilities and equity	**14,545**	**3,095**	**6,457**	**1,851**	**5,233**	**31,181**
Maturity gap	**(4,883)**	**(2,271)**	**(1,648)**	**7,993**	**809**	**–**

47. Risk management (continued)

Maturity analysis (continued)

Bank 2014 HRK millions	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Assets						
Cash and current accounts with 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
Investments in subsidiaries	–	–	–	–	366	366
Property, plant and equipment	–	–	–	–	428	428
Intangible assets	–	–	–	–	186	186
Deferred tax asset	–	–	–	146	–	146
Other and Current tax asset	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**	**–**

47. Risk management (continued)

Market risk

Market risk is the risk of experiencing losses due to adverse changes in market prices, i.e. risk that changes in market prices, such as interest rates, foreign exchange rates and others could 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 non-trading book (total-return approach). Market risks are managed consistently in the trading and non-trading book. The following values are measured and limited on a daily basis in the market risk management system:

- Value at Risk (confidence level 99%, holding period 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. VaR Sensitivity gives a relation between sensitivities of risk factors and VaR change and is used for daily monitoring of VaR and risk management.

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.

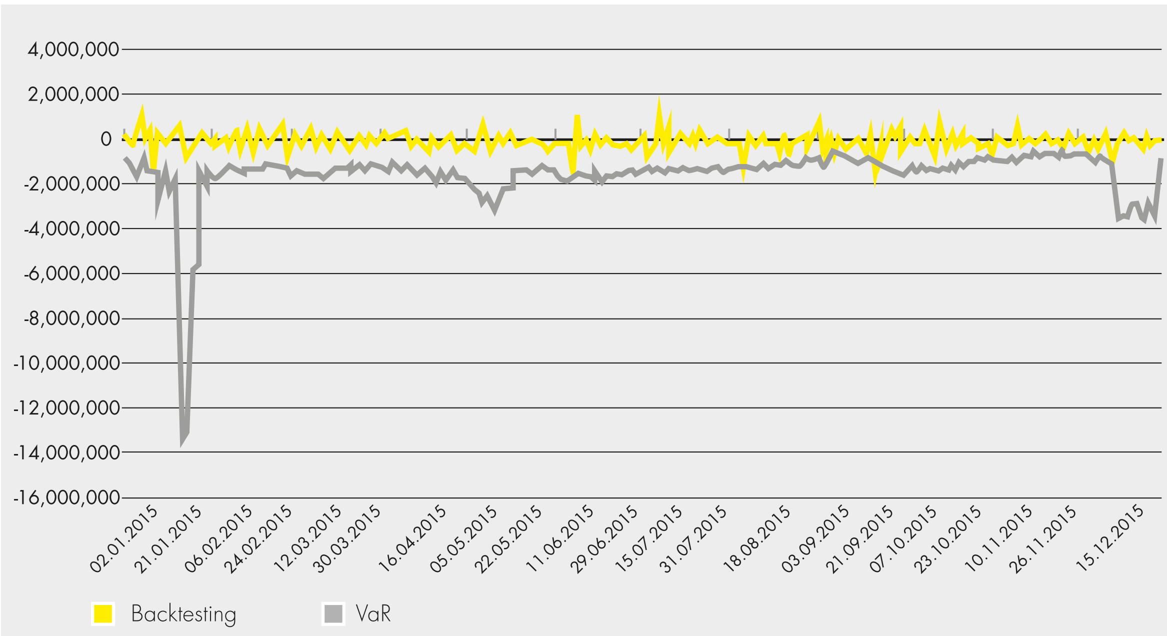
This limit supports traders' discipline in measuring proprietary trading positions and severely limiting losses rather than allowing them to accumulate.

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. In this way the Bank simulates possible crisis situations and their impact on the current positions.

HRK millions	December 2015	December 2014	Average	Min	Max
Interest rate risk					
– Trading book	1,61	2,0	1,39	0,44	3,40
– Banking book	2,75	5,1	4,99	1,92	10,34
Currency risk	0,48	0,3	2,74	0,21	103,93
Credit Spread Risk	6,1	4,5	8,26	3,14	25,12
Price risk	0,33	0,3	0,28	0,23	0,35
Total VaR	**6,69**	**8,1**	**12,2**	**4,66**	**103,72**

47. 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 2015 three 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:
- repricing 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.

47. Risk management (continued)

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 and are not necessarily indicative of the positions at other times but provide some indication of the sensitivities of the Group's and the Bank's earnings to movements in interest rates. Earnings will also be affected by the currency of the assets and liabilities and equity.

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

Group 2015 HRK millions	Non-interest bearing	Up to 1 month	1 – 3 months	3 – 12 months	Over 12 months	Total	Fixed inerest rates
Assets							
Cash and current accounts with banks	2,633	4	–	–	–	2,637	–
Obligatory reserve with the Croatian National Bank	1,977	–	–	–	–	1,977	–
Financial assets at fair value through profit or loss	398	1,468	1	424	–	2,291	1,718
Placements with and loans to other banks	12	860	12	71	–	955	944
Financial assets available for sale	1,418	31	262	993	2,324	5,028	3,319
Loans and advances to customers	68	15,339	584	768	2,867	19,626	3,890
Financial investments held to maturity	4	1	1	–	277	283	279
Property, plant and equipment	1,482					1,482	–
Intangible assets	195	–	–	–	–	195	–
Deferred tax asset	206	–	–	–	–	206	–
Other and Current tax asset	378	–	–	–	–	378	–
Total assets	**8,771**	**17,703**	**860**	**2,256**	**5,468**	**35,058**	**10,150**
Liabilities and equity							
Financial liabilities at fair value through profit or loss	111	–	–	–	–	111	–
Deposits from banks	161	83	2	–	–	246	85
Deposits from companies and other similar entities	2,901	5,141	99	478	175	8,794	1,261
Deposits from individuals	90	5,177	2,293	5,627	1,659	14,846	11,090
Borrowings	27	1,939	1,024	595	666	4,251	1,266
Provisions for liabilities and charges	804	–	–	–	–	804	–
Other liabilities	766	–	–	–	–	766	–
Subordinated liability	6	–	458	–	382	846	382
Equity attributable to the equity holders of the parent	4,326	–	–	–	–	4,326	–
Non-controlling interest	68	–	–	–	–	68	–
Total liabilities and equity	**9,260**	**12,340**	**3,876**	**6,700**	**2,882**	**35,058**	14,084
Interest rate gap	**(489)**	**5,363**	**(3,016)**	**(4,444)**	**2,586**	**–**	(3,934)

47. Risk management (continued)

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

Group 2014 HRK millions	Non-interest bearing	Up to 1 month	1 – 3 months	3 – 12 months	Over 12 months	Total	Fixed inerest rates
Assets							
Cash and current accounts with 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	1,847	472	309	199	2,957	2,295
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	4	–	4	334	349	342
Property, plant and equipment	1,517	–	–	–	–	1,517	–
Intangible assets	194	–	–	–	–	194	–
Deferred tax asset	156	–	–	–	–	156	–
Other and Current tax asset	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)**

47. Risk management (continued)

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

Bank 2015 HRK millions	Non-interest bearing	Up to 1 month	1 – 3 months	3 – 12 months	Over 12 months	Total	Fixed inerest rates
Assets							
Cash and current accounts with banks	2,633	–	–	–	–	2,633	–
Obligatory reserve with the Croatian National Bank	1,977	–	–	–	–	1,977	–
Financial assets at fair value through profit or loss	407	1,402	–	145	–	1,954	1,374
Placements with and loans to other banks	12	861	–	67	51	991	979
Financial assets available for sale	1,416	29	262	988	2,049	4,744	3,037
Loans and advances to customers	67	13,933	190	703	2,494	17,387	3,567
Investments in subsidiaries	366	–	–	–	–	366	–
Property, plant and equipment	458	–	–	–	–	458	–
Intangible assets	188	–	–	–	–	188	–
Deferred tax asset	201	–	–	–	–	201	–
Other and Current tax asset	282	–	–	–	–	282	–
Total assets	**8,007**	**16,225**	**452**	**1,903**	**4,594**	**31,181**	**8,957**
Liabilities and equity							
Financial liabilities at fair value through profit or loss	111	–	–	–	–	111	–
Deposits from banks	168	89	31	48	–	336	168
Deposits from companies and other similar entities	2,830	5,611	99	548	185	9,273	1,348
Deposits from individuals	90	5,151	2,247	5,382	821	13,691	9,935
Borrowings	38	371	193	539	661	1,802	1,261
Provisions for liabilities and charges	793	–	–	–	–	793	–
Other liabilities	315	–	–	–	–	315	–
Subordinated liabilities	6	–	458	–	382	846	382
Equity	4,014	–	–	–	–	4,014	–
Total liabilities and equity	**8,365**	**11,222**	**3,028**	**6,517**	**2,049**	**31,181**	**13,094**
Interest rate gap	**(358)**	**5,003**	**(2,576)**	**(4,614)**	**2,545**	**–**	**(4,137)**

47. Risk management (continued)

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

Bank 2014 HRK millions	Non-interest bearing	Up to 1 month	1 – 3 months	3 – 12 months	Over 12 months	Total	Fixed inerest rates
Assets							
Cash and current accounts with 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
Investments in subsidiaries	366	–	–	–	–	366	–
Property, plant and equipment	428	–	–	–	–	428	–
Intangible assets	186	–	–	–	–	186	–
Deferred tax asset	146	–	–	–	–	146	–
Other and Current tax asset	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**	**13,051**
Interest rate gap	**(6,451)**	**11,119**	**(1,842)**	**(6,345)**	**3,519**	**–**	**(3,071)**

47. Risk management (continued)

Average effective interest rates

The average effective 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 2015	Up to 1 month %	1-3 months %	3-12 months %	Over 12 months %
Assets				
Financial assets at fair value through profit or loss	2.78	5.56	6.30	–
Placements with and loans to other banks	0.35	1.30	0.07	–
Financial assets available for sale	0.51	0.26	1.78	3.77
Loans and advances to customers	6.99	4.92	5.27	6.02
Financial investments held to maturity	6.03	6.03	4.13	6.28
Liabilities				
Deposits from banks	0.12	0.60	–	–
Deposits from companies and other similar entities	0.33	0.84	1.36	2.56
Deposits from individuals	0.70	1.67	1.66	2.35
Borrowings	1.23	1.49	0.93	2.40
Subordinated liabilities	–	6.53	–	6.75

Group 2014	Up to 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	–

47. Risk management (continued)

Bank 2015	Up to 1 month %	1-3 months %	3-12 months %	Over 12 months %
Assets				
Financial assets at fair value through profit or loss	2.83	–	7.69	–
Placements with and loans to other banks	0.35	–	1.40	5.85
Loans and advances to customers	7.18	5.23	5.15	6.13
Financial assets available for sale	0.20	0.26	1.76	3.60
Liabilities				
Deposits from banks	0.17	0.82	1.05	–
Deposits from companies and other similar entities	0.32	0.84	1.29	2.60
Deposits from individuals	0.69	1.64	1.60	1.89
Borrowings	0.95	1.07	0.85	2.38
Subordinated liabilities	–	6.53	–	6.75

Bank 2014	Up to 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
Loans and advances to customers	7.42	5.55	5.74	5.50
Financial assets available for sale	–	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	–

47. 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 for which this change is material) for 2015 and 2014:

BPV/Currency in HRK	EUR	USD	HRK
31 December 2015	(15,477.1)	(3,476.6)	(12,207.1)
Average	(7,541.1)	(1,325.5)	(10,158.7)
Minimum	(19,209.8)	(198.2)	(8,105.8)
Maximum	19,761.5	(4,416.1)	(13,209.2)

BPV/Currency in HRK	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)

Total BPV for trading book for 31 December 2015 was HRK 251 thousands in respect to 31 December 2014 when it was HRK 134 thousands.

Interest rate risk in non-trading 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 non-trading book (BPV per currencies for which this change is material) for 2015 and 2014:

BPV/Currency	HRK	EUR	USD	CHF
31 December 2015	(13,533.0)	(42,757.6)	(3,159.9)	(18,752.4)
Average	(35,533.9)	(52,677.0)	(5,229.5)	(22,224.3)
Minimum	(67,062.7)	(81,411.2)	(12,581.4)	(30,179.2)
Maximum	(13,533.0)	(18,676.7)	931.6	(16,529.8)

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)

Total BPV for non - trading book for 31 December 2015 was HRK 609 thousands in respect to 31 December 2014 when it was HRK 1,058 thousands.

47. Risk management (continued)

Interest rate risk in non-trading book (continued)

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

HRK	31 December 2015	31 December 2014
CHF	220,596	228,530
EUR	58,890	55,710
HRK	35,853	66,829
Other	(13,728)	(7,283)
Total	301,611	343,786
%	6.6%	7.2%

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.

47. Risk management (continued)

Currency analysis

Provision for liabilities and charges arising from the conversion of CHF loans denominated in or linked to the Swiss franc in the amount of 617 million is included in the position of the domestic currency.

Group 2015 HRK millions	EUR	EUR linked	CHF	CHF linked	Other foreign currencies	Total foreign currencies	Domestic currency	Total currencies
Assets								
Cash and current accounts with banks	79	–	37	–	125	241	2,396	2,637
Obligatory reserve with the Croatian National Bank	269	–	–	–	–	269	1,708	1,977
Financial assets at fair value through profit or loss	1,173	453	–	–	128	1,754	537	2,291
Placements with and loans to other banks	331	12	–	–	514	857	98	955
Financial assets available for sale	3,284	590	–	–	737	4,611	417	5,028
Loans and advances to customers	2,048	9,298	44	1,914	79	13,383	6,243	19,626
Financial investments held to maturity	7	242	–	–	–	249	34	283
Property, plant and equipment	–	–	–	–	–	–	1,482	1,482
Intangible assets	–	–	–	–	–	–	195	195
Deferred tax assets	–	–	–	–	–	–	206	206
Other and Current tax asset	8	26	–	–	1	35	343	378
Total assets	**7,199**	**10,621**	**81**	**1,914**	**1,584**	**21,399**	**13,659**	**35,058**
Liabilities and equity								
Financial liabilities at fair value through profit or loss	56	–	20	–	8	84	27	111
Deposits from banks	89	–	2	–	21	112	134	246
Deposits from companies and other similar entities	2,355	72	15	–	528	2,970	5,824	8,794
Deposits from individuals	9,226	1,068	325	–	1,639	12,258	2,588	14,846
Borrowings	2,835	671	–	–	–	3,506	745	4,251
Provisions for liabilities and charges	31	1	–	–	1	33	771	804
Other liabilities	23	349	–	–	1	373	393	766
Subordinated liability	846	–	–	–	–	846	–	846
Equity attributable to the equity holders of the parent	–	–	–	–	–	–	4,326	4,326
Non-controlling interest	–	–	–	–	–	–	68	68
Total liabilities and equity	**15,461**	**2,161**	**362**	**–**	**2,198**	**20,182**	**14,876**	**35,058**
Currency gap	**(8,262)**	**8,460**	**(281)**	**1,914**	**(614)**	**1,217**	**(1,217)**	**–**

47. Risk management (continued)

Currency analysis (continued)

Group 2014 HRK millions	EUR	EUR linked	CHF	CHF linked	Other foreign currencies	Total foreign currencies	Domestic currency	Total currencies
Assets								
Cash and current accounts with 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	770	2,957
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	91	349
Property, plant and equipment	–	–	–	–	–	–	1,517	1,517
Intangible assets	–	–	–	–	–	–	194	194
Deferred tax asset	–	–	–	–	–	–	156	156
Other and Current tax asset	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 liabilities	464	–	–	–	–	464	–	464
Equity attributable to the equity holders of the parent	–	–	–	–	–	–	5,052	5,052
Non-controlling interest	–	–	–	–	–	–	65	65
Total liabilities and equity	**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)**	**–**

47. Risk management (continued)

Currency analysis (continued)

Bank 2015 HRK millions	EUR	EUR linked	CHF	CHF linked	Other foreign currencies	Total foreign currencies	Domestic currency	Total currencies
Assets								
Cash and current accounts with banks	75	–	37	–	125	237	2,396	2,633
Obligatory reserve with the Croatian National Bank	269	–	–	–	–	269	1,708	1,977
Financial assets at fair value through profit or loss	1,147	254	–	–	128	1,529	425	1,954
Placements with and loans to other banks	347	–	–	–	514	861	130	991
Financial assets available for sale	3,284	346	–	–	737	4,367	377	4,744
Loans and advances to customers	2,048	7,178	44	1,914	79	11,263	6,124	17,387
Investments in subsidiaries	–	–	–	–	–	–	366	366
Property, plant and equipment	–	–	–	–	–	–	458	458
Intangible assets	–	–	–	–	–	–	188	188
Deferred tax asset	–	–	–	–	–	–	201	201
Other and Current tax asset	8	–	–	–	1	9	273	282
Total assets	**7,178**	**7,778**	**81**	**1,914**	**1,584**	**18,535**	**12,646**	**31,181**
Liabilities and equity								
Financial liabilities at fair value through profit or loss	56	–	20	–	8	84	27	111
Deposits from banks	89	–	2	–	21	112	224	336
Deposits from companies and other similar entities	2,629	–	15	–	528	3,172	6,101	9,273
Deposits from individuals	9,226	5	325	–	1,639	11,195	2,496	13,691
Borrowings	375	683	–	–	–	1,058	744	1,802
Provisions for liabilities and charges	31	1	–	–	1	33	760	793
Other liabilities	23	4	–	–	1	28	287	315
Subordinated liability	846	–	–	–	–	846	–	846
Equity	–	–	–	–	–	–	4,014	4,014
Total liabilities and equity	**13,275**	**693**	**362**	**–**	**2,198**	**16,528**	**14,653**	**31,181**
Currency gap	**(6,097)**	**7,085**	**(281)**	**1,914**	**(614)**	**2,007**	**(2,007)**	**–**

47. 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 current accounts with 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	2,669
Placements with and loans to other banks	772	–	–	–	170	942	519	1,461
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 asset	–	–	–	–	–	–	146	146
Other and Current tax asset	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	–	–	–	1,285	1,166	2,451
Provisions for liabilities and charges	30	1	–	–	3	34	136	170
Other liabilities	29	6	–	–	–	35	220	255
Subordinated liabilities	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)**	**–**

47. 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. With the aim of efficient operational risk management, the RZB/RBI Group built system based on standards and principles defined in EU directives and Regulations, Credit Institutions Act and CNB Decisions, Basel Committee documents and RBI Group Directives.
The Group's Operational Risk Management Framework consists of processes, structures, controls for the governance, identification, measurement, management, monitoring, capital computation and attribution, risk control and mitigation of loss resulting from inadequate or failed internal processes, people and systems or from external events.
The Operational Risk Management Framework is structured to increase transparency of operational risks across the Group, strengthen management of operational risk exposures and ensure full compliance with regulatory requirements.

Roles and Responsibilities

RZB/RBI Group fosters an open environment and culture, while all employees of the Group, through their individual roles and responsibilities, contribute to maintaining an effective Operational Risk Management Framework.
Whilst ultimate responsibility for risk resides with the Management Board, system of responsibilities for managing operational risk.
The first line of defence is the risk originating units whose business activities give rise to risk. The risk originating units own operational risk and they are responsible for the day-to-day management of operational risk in a manner consistent with the Group-wide principles.
The second line of defence provides an independent assessment of operational risk, oversight and challenges the first line of defence. The second line of defence is comprised of:

- RBI/RZB Group Chief Risk Officer & RBA Chief Risk Officer – representing the applicable Management Board provides strategic direction, leadership and ensure that operational risks are appropriately managed.
- The Operational Risk Management Committees on RBI/RZB Group and RBA level are a decision making body which oversees the entire Operational Risk Management Framework.
- RBI/RZB Group Operational Risk Controlling develops and maintains the Group Operational Risk Management Framework and together with RBA Operational Risk Control ensures that operational risks are proactively identified, measured, managed and monitored.
- RBA Operational Risk Control provides leadership and subject matter expertise for operational risk management on RBA level. RBA Operational Risk Control is responsible for ensuring that minimum standards are adhered to and operational risks are proactively identified, measured, managed and monitored.

The third line of defence is Internal Audit, it reviews effectiveness and suitability of the general risk management processes.

Risk identification, measurement, mitigation and monitoring

Operational Risk is managed within the Risk Management cycle, which encompasses the identification, measurement, management and monitoring of risk.

Identification of operational risks includes analysing the below attributes to understand material operational risk types to which the business may be exposed. Operational risks in the Group are identified on a proactive and regular basis within: products, processes, systems and external factors.

Operational Risk measurement can be both quantitative and qualitative in nature and include the following instruments:

- Risk assessments serve to increase operational risk awareness, identify operational risks and mitigate identified operational risks. The risk assessment determines the net risk of a process, risk originating unit or activity that is relevant as a target value for measures of qualitative risk management. The results of Risk Assessments are the basis for the Operational Risk Profile.

47. Risk management (continued)

Operational risk (continued)

Risk identification, measurement, mitigation and monitoring (continued)

- Early Warning Indicators are used for the on-going monitoring and reporting of operational risk exposures. They provide an early warning signal for potential issues or changes in Operational Risk Profile that may warrant management action.
- Event Data Collection and analysis of internal operational risk events provides meaningful information for measuring the impact of operational risk events and the effectiveness of the internal control environment.
- Scenario Analysis is a process by which the Group considers the impact of extreme, but plausible events on its operations and assigns likelihood and severity estimations to the range of possible outcomes. Scenario analysis aims to provide a prospective method for capturing 'tail events' that may not have occurred in the Bank's own loss history, and raise awareness and educate management by providing perspective on different types of risk, and drive risk mitigation action and investment plans.

Monitoring is focused on regularly reviewing the Operational Risk Management cycle and the Operational Risk Management instruments and methods to ensure their relevance and validity in assessing Operational Risk and ensuring that mitigation measures, which are implemented are functioning effectively, reviewed regularly and that necessary adjustments occur.

Reporting supports the Operational Risk Management cycle by ensuring constant and timely information flow to the relevant decision making bodies. In this way, operational risk reporting supports risk transparency and the integration of Operational Risk Management activities into day-to-day business operations.

Risk mitigation represents managing the risk exposure, by taking the one of the following actions: risk avoidance (removing the risk source), risk reduction (changing the likelihood or consequences by applying controls or other mitigation activities), risk transfer (sharing the risk with another party or parties) and risk accepting (accepting the risk by informed decision). The Group defined triggers within risk identification tools which result in mandatory mitigation actions, however the development of mitigation actions is conducted as part of everyday business activities whenever they are identified.

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

48. 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 current accounts with banks, placements with banks, deposits from banks and deposits from companies and similar entities, reflect their fair value due to the short-term maturity.

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.

48. 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 2015 and 2014:

Group			2015			2014
HRK millions	Carrying amount	Fair value	Unrecognised estimated gains/(losses)	Carrying amount	Fair value	Unrecognised estimated gains/(losses)
Cash and current accounts with banks	2,637	2,637	–	1,834	1,834	–
Obligatory reserve with the Croatian National Bank	1,977	1,977	–	1,963	1,963	–
Financial assets at fair value through profit or loss	2,291	2,291	–	2,957	2,957	–
Placements with and loans to other banks	955	955	–	1,428	1,422	(6)
Financial assets available for sale	5,028	5,028	–	3,328	3,328	–
Loans and advances to customers	19,626	19,688	62	21,780	21,741	(39)
Financial investments held to maturity	283	243	(40)	349	416	67
Financial liabilities at fair value through profit or loss	(111)	(111)	–	(250)	(250)	–
Deposits from banks	(246)	(246)	–	(302)	(302)	–
Deposits from companies and other similar entities	(8,794)	(8,782)	12	(8,474)	(8,451)	23
Deposits from individuals	(14,846)	(14,911)	(65)	(15,053)	(14,937)	116
Borrowings	(4,251)	(4,242)	9	(5,345)	(5,316)	29
Subordinated liabilities	(846)	(810)	36	(464)	(464)	–
Total			**14**			**190**

48. Fair value of financial instruments (continued)

Bank HRK millions	Carrying amount	Fair value	2015 Unrecognised estimated gains/(losses)	Carrying amount	Fair value	2014 Unrecognised estimated gains/(losses)
Cash and current accounts with banks	2,633	2,633	–	1,834	1,834	–
Obligatory reserve with the Croatian National Bank	1,977	1,977	–	1,963	1,963	–
Financial assets at fair value through profit or loss	1,954	1,954	–	2,669	2,669	–
Placements with and loans to other banks	991	990	(1)	1,461	1,455	(6)
Financial assets available for sale	4,744	4,744	–	3,083	3,083	–
Loans and advances to customers	17,387	17,564	177	19,035	19,167	132
Financial liabilities at fair value through profit or loss	(111)	(111)	–	(250)	(250)	–
Deposits from banks	(336)	(336)	–	(304)	(304)	–
Deposits from companies and other similar entities	(9,273)	(9,259)	14	(8,940)	(8,917)	23
Deposits from individuals	(13,691)	(13,672)	19	(13,758)	(13,728)	30
Borrowings	(1,802)	(1,793)	9	(2,451)	(2,422)	29
Subordinated liabilities	(846)	(810)	36	(464)	(464)	–
Total			**254**			**208**

48. 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				2015				2014
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	1,655	53	–	**1,708**	1,562	223	–	**1,785**
– Equity instruments	6	–	2	**8**	7	–	2	**9**
– Derivative financial assets	–	70	–	**70**	–	88	–	**88**
Financial assets designated at fair value through profit or loss								
– Debt securities	321	160	3	**484**	852	188	3	**1,043**
– Equity instruments	1	–	–	**1**	–	–	–	**–**
– Investments in investments fund managed by related and third parties	1	–	–	**1**	11	–	–	**11**
Financial assets available for sale								
– Debt securities	4,924	–	–	**4,924**	3,291	4	–	**3,295**
– Equity instruments	4	–	60	**64**	–	1	5	**6**
Total	**6,912**	**283**	**65**	**7,260**	**5,723**	**504**	**10**	**6,237**
Financial liabilities at fair value through profit or loss								
– Derivative financial liabilities	–	(109)	–	**(109)**	–	(247)	–	(247)
Total	**–**	**(109)**	**–**	**(109)**	**–**	**(247)**	**–**	**(247)**

48. Fair value of financial instruments (continued)

Bank HRK millions	Level 1	Level 2	Level 3	2015 Total	Level 1	Level 2	Level 3	2014 Total
Financial assets at fair value through profit or loss								
Trading instruments								
– Debt securities	1,655	53	–	1,708	1,562	223	–	1,785
– Equity instruments	6	–	2	8	7	–	2	9
– Derivative financial assets	–	80	–	80	–	100	–	100
Financial assets designated at fair value through profit or loss								
– Debt securities	65	77	3	145	627	126	3	756
Financial assets available for sale								
– Debt securities	4,644	–	–	4,644	3,055	–	–	3,055
– Equity securities	4	–	60	64	–	1	5	6
Total	6,374	210	65	6,649	5,251	450	10	5,711
Financial liabilities at fair value through profit or loss								
– Derivative financial liabilities	–	(109)	–	(109)	–	(247)	–	(247)
Total	–	(109)	–	(109)	–	(247)	–	(247)

The following table shows adjustment between initial and final balance for measurement of fair value in level 3 inside hierarchy of fair values:

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
At 1 January 2014	2	4	5
Disposals in financial year	–	(1)	–
At 31 December 2014	2	3	5
Gains and losses in other comprehensive income	–	–	55
At 31 December 2015	2	3	60

48. Fair value of financial instruments (continued)

Group		Fair value 2015	Fair value 2014	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
1) Foreign currency derivatives (Note 8 and 45)	forward foreign exchange contracts; cross currency swaps; fx options	Assets HRK 57 million Liabilities HRK 52 million	Assets HRK 73 million Liabilities HRK 171 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 8 and 45)	Interest rate swaps; forward rate agreements	Assets HRK 13 million Liabilities HRK 50 million	Assets HRK 15 million Liabilities HRK 70 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 1,577 million	Assets HRK 1,247 million	Level 1	Quoted prices in an active market	Not applicable	Not applicable
	Bonds issued by banks	Assets HRK 348 million	Assets HRK 197 million	Level 1	Quoted prices in an active market	Not applicable	Not applicable
	Securities issued by companies	Assets HRK 43 million	Assets HRK 156 million	Level 1	Quoted prices in an active market	Not applicable	Not applicable
	Securities issued by companies	Assets HRK 94 million	Assets HRK 144 million	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	Assets HRK 3 million	Level 3	Valuation based on discounted cash flows with cap defined by the expert opinion	Issuer credit risk spread applied on the yield curve used for discounting cash flows. Conservativity driven haircut applied to the discounted cash flow 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 cash flows. 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	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 8 million	–	Level 1	Quoted prices in an active market	Not applicable	Not applicable
	Treasury bills issued by Ministry of Finance	Assets HRK 119 million	Assets HRK 1,063 million	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

48. Fair value of financial instruments (continued)

Group		Fair value 2015	Fair value 2014	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 8)	Equity securities corporate	Assets HRK 7 million	Assets HRK 7 million	Level 1	Quoted prices in an active market	Not applicable	Not applicable
	Equity securities other financial institutions	Assets HRK 2 million	Assets HRK 2 million	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 8)	Equity securities corporate	Assets HRK 1 million	Assets HRK 11 million	Level 1	Quoted prices in an active market	Not applicable	Not applicable
6) Financial assets available for sale (Note 10)	Equity securities	–	Assets HRK 1 million	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 corporate	Assets HRK 4 million	Assets –	Level 1	Quoted prices in an active market	Not applicable	Not applicable
	Equity securities Companies	Assets HRK 60 million	Assets 5 HRK	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 3,334 million	Assets HRK 2,537 million	Level 1	Quoted prices in an active market	Not applicable	Not applicable
	Securities issued by companies	–	Assets HRK 4 million	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
	Bonds issued by banks	Assets HRK 908 million	Assets HRK 341million	Level 1	Quoted prices in an active market	Not applicable	Not applicable
	Treasury bills issued by foreign government	–	Assets HRK 398 million	Level 1	Quoted prices in an active market	Not applicable	Not applicable
	Treasury bills issued by Ministry of Finance	Assets HRK 682 million	Assets HRK 15 million	Level 1	Quoted prices in an active market	Not applicable	Not applicable

48. Fair value of financial instruments (continued)

Bank		Fair value 2015	Fair value 2014	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 45)	forward foreign exchange contracts; cross currency swaps; fx options	Assets HRK 57 million Liabilities HRK 52 million	Assets HRK 74 million Liabilities HRK 170 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 8 and 45)	Interest rate swaps; forward rate agreements	Assets HRK 23 million Liabilities HRK 50 million	Assets HRK 26 million Liabilities HRK 71 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 8)	Domestic and foreign government bonds	Assets HRK 1,321 million	Assets HRK 1,023 million	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Bonds issued by banks	Assets HRK 348 million	Assets HRK 197 million	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Securities issued by companies	Assets HRK 43 million	Assets HRK 155 million	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Securities issued by companies	Assets HRK 77 million	Assets HRK 144 million	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	Assets HRK 3 million	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	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 8 million	Assets HRK 814 million	Level 1	Quoted prices in an active market	Not applicable	Not applicable
	Treasury bills issued by Ministry of Finance	Assets HRK 53 million	Assets HRK 186 million	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

48. Fair value of financial instruments (continued)

Bank		Fair value 2015	Fair value 2014	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 6 million	Assets HRK 7 million L	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Equity securities other financial institutions	Assets HRK 2 million	Assets HRK 2 million	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 avai-lable for sale (note 9)	Domestic and foreign government bonds	Assets HRK 3,054 million	Assets HRK 2,316	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Bonds issued by banks	Assets HRK 908 million	Assets HRK 341 million	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Treasury bills issued by foreign government	Assets HRK 682 million	Assets –	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable
	Treasury bills issued by foreign government	–	Assets - HRK 398 million	Level 1	Quoted prices in an active market	Not applicable	Not applicable
	Equity securities	Assets HRK 4 million	–	Level 1	Quoted prices in an active market	Not applicable	Not applicable
	Equity securities	–	Assets - HRK 1 million	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 60 million	Assets HRK 5 million	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.

49. Capital management

From 1 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 Banking Authority ("EBA") and local regulator CNB.

The Group's and the Bank's regulatory capital requirements are based on Basel III methodology.

Group, in accordance with the regulatory requirements of CNB and EBA regulations, comprises Raiffeisenbank Austria and its subsidiaries that form group of credit institutions. For the purpose of regulatory capital calculation 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.

Regulatory capital consist of Common Equity Tier 1 ("CET1") capital and Tier 2 ("T2") capital. CET1 include ordinary 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.

Additionally in accordance to Article 129 and 133 of Directive 2013/36/EU 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.

49. Capital management (continued)

HRK millions	Group 2015	Group 2014	Bank 2015	Bank 2014
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)	290	804	148	728
Net profit for the period	–	–	–	–
Legal, statutory and other reserves	173	173	173	173
Non-controlling interests	68	65	–	–
Deductions, in accordance with the CNB regulations Intangible assets	(205)	(212)	(199)	(205)
Value adjustment due to prudent valuations	(7)	(6)	(7)	(6)
Unrealised losses on financial assets available for sale	(19)	(9)	(18)	(9)
Deductions for investments in banks and financial institutions	(23)	(23)	(23)	(23)
Total Common Equity Tier 1 capital	**3,910**	**4,425**	**3,707**	**4,291**
Tier 2 capital	**840**	**460**	**840**	**460**
Total Own Funds	**4,750**	**4,885**	**4,547**	**4,751**
Total risk-weighted assets	**24,608**	**25,891**	**21,516**	**22,276**
Capital adequacy ratio	**19.30%**	**18.87%**	**21.13%**	**21.33%**

During the year 2015, the capital adequacy ratio of the Group and the Bank was above the prescribed minimum.

Leverage ratio

In accordance with Article 429 of the CRR (EU) no. 575/2013, credit institutions are obliged to calculate the leverage ratio as the institution's capital measure, divided by the institution's total exposure measure. A minimum requirement for the leverage ratio is 3%.

Leverage ratio, for the Group and the Bank as at 31.12.2015:

HRK millions	Group	Bank
Exposure values		
Securities financing transactions	218	218
Derivatives: Market value and add-to- market method	170	180
Off balance sheet exposure	3,188	3,225
Other asset	33,988	30,460
	37,564	**34,083**
Tier 1 capital	**3,910**	**3,707**
Leverage ratio	**10.41%**	**10.88%**

Appendix I

Supplementary schedules for 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 (schedules) prepared in accordance to the above mentioned Decision:

Consolidated Income Statement

HRK millions	2015	2014
Unaudited		
1. Interest income	1,448	1,728
2. (Interest expenses)	(483)	(597)
3. Net interest income	**965**	**1,131**
4. Commission and fee income	706	629
5. (Commission and fee expenses)	(238)	(201)
6. Net commission and fee income	**468**	**428**
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	–	–
8. Gain/(loss) from trading activities	31	239
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	1	14
11. Gain/(loss) from financial assets available for sale	10	14
12. Gain/(loss) from financial assets held to maturity	27	9
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	125	(69)
17. Other income	407	378
18. Other expenses	(74)	(59)
19. General and administrative expenses, depreciation and amortization	(1,174)	(1,209)
20. Net income before value adjustments and provisions for losses	**786**	**876**
21. Expenses from value adjustments and provisions for losses	(968)	(411)
22. Profit/(loss) before tax	**(182)**	**465**
23. Income tax	32	(101)
24. Current year profit/(loss)	**(150)**	**364**
25. Earnings per share	HRK (43)	HRK 100

Appendix to the Income Statement

	2015	2014
Current year profit/(loss)	(150)	364
Attributable to the parent company shareholders	(156)	361
Non-controlling interest	6	3

Appendix I

Supplementary schedules for the Croatian National Bank (continued)

Consolidated Balance Sheet

HRK millions	2015	2014
Unaudited		
Assets		
1. Cash and deposits with CNB	4,462	4,103
1.1. Cash	762	571
1.2. Deposits with CNB	3,700	3,532
2. Deposits with banking institutions	969	982
3. Treasury bills of Ministry of Finance and treasury bills of CNB	119	264
4. Securities and other financial instruments held for trading	1,672	1,617
5. Securities and other financial instruments available for sale	4,989	3,287
6. Securities and other financial instruments held to maturity	277	342
7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	410	983
8. Derivative financial assets	75	94
9. Loans to financial institutions	174	208
10. Loans to other clients	19,506	21,590
11. Investments in subsidiaries, affiliated companies and joint ventures	–	–
12. Repossessed assets	86	83
13. Tangible and intangible assets (minus depreciation and amortisation)	1,702	1,755
14. Interests, fees and other assets	647	589
A. Total assets	35,088	35,897
Liabilities and equity		
1. Borrowings from financial institutions	2,641	3,446
1.1. Short-term borrowings	1,534	2,255
1.2. Long-term borrowings	1,107	1,191
2. Deposits	23,537	23,437
2.1. Deposits on giro-accounts and current accounts	6,468	5,983
2.2. Savings deposits	4,502	3,958
2.3. Term deposits	12,567	13,496
3. Other borrowings	1,602	1,890
3.1. Short-term borrowings	341	379
3.2. Long-term borrowings	1,261	1,511
4. Derivative financial liabilities and other trading financial liabilities	107	247
5. Issued debt securities	–	–
5.1. Issued short-term debt securities	–	–
5.2. Issued long-term debt securities	–	–
6. Issued subordinated instruments	840	460
7. Issued subordinated debt	–	–
8. Interests, fees and other liabilities	1,949	1,300
B. Total liabilities	30,676	30,780

Appendix I

Supplementary schedules for the Croatian National Bank (continued)

Consolidated Balance Sheet (continued)

HRK millions	2015	2014
Unaudited		
Equity		
1. Share capital	3,633	3,633
2.Minority participation	68	65
3 Current year gain/loss	(156)	361
4. Retained earnings/(loss)	586	862
5. Legal reserves	180	178
6. Statutory and other capital reserves	19	1
7. Unrealised gain/(loss) from available for sale fair value adjustment	82	17
C. Total equity	**4,412**	**5,117**
D. Total liabilities and equity	**35,088**	**35,897**

Appendix to the Balance Sheet

	2015	2014
Total equity	4,412	5,117
Equity distributable to parent company shareholders	4,344	5,052
Minority participation	68	65

Appendix I

Supplementary schedules for the Croatian National Bank (continued)

Consolidated Cash Flow Statement

HRK millions	2015	2014
Operating activities		
1.1. Gain/(loss) before tax	(182)	465
1.2. Value adjustments and provisions for losses	931	411
1.3. Depreciation and amortization	195	200
1.4. Net unrealised (gain)/loss from financial assets and liabilities at fair value through profit and loss	(112)	(433)
1.5. Gain/(loss) from tangible assets sale	–	–
1.6. Other (gains)/losses	(1,152)	(1,104)
1. Operating cash flow before operating assets movements	**(320)**	**(461)**
2.1. Deposits with CNB	351	67
2.2. Treasury bills of Ministry of Finance and treasury bills of CNB	144	174
2.3. Deposits with banking institutions and loans to financial institutions	26	308
2.4. Loans to other clients	1,938	1,545
2.5. Securities and other financial instruments held for trading	(53)	634
2.6. Securities and other financial instruments available for sale	(1,640)	(3,233)
2.7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	573	(157)
2.8. Other operating assets	73	2,178
2. Net (increase)/decrease in operating assets	**1,412**	**1,516**
Increase/(decrease) in operating liabilities		
3.1. Demand deposits	485	156
3.2. Savings and term deposits	(527)	1,450
3.3. Derivative financial liabilities and other trading liabilities	(139)	(399)
3.4. Other liabilities	1,264	(459)
3. Net increase/(decrease) in operating liabilities	**1,083**	**748**
4. Net cash flow form operating activities before profit tax paying	**2,175**	**1,803**
5. Paid profit tax	(48)	(80)
6. Net inflows/(outflows) of cash from operating activities	**2,127**	**1,723**
Investing activities		
7.1. Receipts from sale/(payments for purchasing) tangible and intangible assets	(175)	(165)
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	64	446
7.4. Received dividends	–	–
7.5. Other receipts/(payments) form investment activities	–	–
7. Net cash flow from investing activities	**(111)**	**281**

Appendix I

Supplementary schedules for the Croatian National Bank (continued)

Consolidated Cash Flow Statement (continued)

HRK millions	2015	2014
Financial activities		
8.1. Net increase/(decrease) in borrowings	(1,081)	(1,548)
8.2. Net increase/(decrease) in issued debt securities	–	–
8.3. Net increase/(decrease) in subordinated and subordinated debt	383	460
8.4. Receipts from issued share capital	–	–
8.5. (Dividends paid)	(638)	(805)
8.6. Other receipts/(payments) from financial activities	–	–
8. Net cash flow from financial activities	(1,336)	(1,893)
9. Net increase/(decrease) in cash and cash equivalents	680	111
10. Effects from foreign exchange rates changes on cash and cash equivalents	12	18
11. Net increase/(decrease) in cash and cash equivalents	692	129
12. Cash and cash equivalents at the beginning of the year	2,830	2,701
13. Cash and cash equivalents at the end of the year	3,522	2,830

Appendix I

Supplementary schedules for 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 2015	**3,633**	**–**	**179**	**862**	**361**	**17**	**65**	**5,117**
2. Changes of Accounting policies and error corrections	–	–	–	–	–	–	–	–
3. Restated current year balance	**3,633**	**–**	**179**	**862**	**361**	**17**	**65**	**5,117**
4. Sale of financial assets available for sale	–	–	–	–	–	–	–	–
5. Fair value changes of financial assets available for sale	–	–	–	–	–	65	–	65
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	**–**	**–**	**–**	**–**	**–**	**65**	**–**	**65**
9. Current year gain/(loss)	–	–	–	–	(156)	–	6	(150)
10. Total income and expenses recognised for the current year	**–**	**–**	**–**	**–**	**(156)**	**–**	**6**	**(150)**
11. Increase/(decrease) in share capital	–	–	–	–	–	–	–	–
12. Buying/(sale) of treasury shares	–	–	–	–	–	–	–	–
13. Other changes	–	–	18	–	–	–	–	18
14. Transfer to reserves	–	–	2	(2)	–	–	–	–
15. Dividends paid	–	–	–	(635)	–	–	(3)	(638)
16. Distribution of profit	**–**	**–**	**20**	**(637)**	**–**	**–**	**(3)**	**(620)**
17. Balance at 31 December 2015	**3,633**	**–**	**199**	**225**	**205**	**82**	**68**	**4,412**

Appendix I

Supplementary schedules for 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 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)**	**–**	**–**	**–**	**(783)**
17. Balance at 31 December 2014	**3,633**	**–**	**179**	**862**	**361**	**17**	**65**	**5,117**

Appendix II

Reconciliation of the statutory financial statements with the supplementary schedules for the Croatian National Bank

The following reconciliation tables are prepard in light of different classifications of line items in the statutory financial statements and the CNB Scedules:

Reconciliation for the income statement for years ended 31 December 2015 and 2014:

HRK millions	2015 CNB schedules	2015 Statutory financial statements	2015 Difference	2014 CNB schedules	2014 Statutory financial statements	2014 Difference
Interest income	1,448	1,452	(4)	1,728	1,732	(4)
Interest expenses	(483)	(419)	(64)	(597)	(550)	(47)
Net interest income	**965**	**1,033**	**(68)**	**1,131**	**1,182**	**(51)**
Commission and fee income	706	704	2	629	628	1
Commission and fee expenses	(238)	(242)	4	(201)	(240)	39
Net commission and fee income	**468**	**462**	**6**	**428**	**388**	**40**
Net trading gain	32	152	(120)	253	194	59
Gain/(loss) from financial assets available for sale	10	–	10	14	–	14
Gain/(loss) from financial investments held to maturity	27	–	27	9	–	9
Income from other equity investments	–	–	–	–	–	–
Net foreign exchange differences	125	–	125	(69)	–	(69)
Other operating income	407	343	64	378	371	7
Total other income	**601**	**495**	**106**	**585**	**565**	**20**
General and administrative expenses, depreciation and amortization	(1,174)	(1,231)	57	(1,209)	(1,263)	54
Expenses from value adjustments and provisions for losses	(968)	(941)	(27)	(411)	(407)	(4)
Other operating expenses	(74)	–	(74)	(59)	–	(59)
Total other expenses	**(2,216)**	**(2,172)**	**(44)**	**(1,679)**	**(1,670)**	**(9)**
Profit before tax	**(182)**	**(182)**	**–**	**465**	**465**	**–**
Income tax	32	32	–	(101)	(101)	–
Net profit for the year	**(150)**	**(150)**	**–**	**364**	**364**	**–**
Earnings per share (in HRK)	**HRK (43)**	**HRK (43)**	**–**	**HRK 100**	**HRK 100**	**–**

Appendix II

Reconciliation of the statutory financial statements with the supplementary schedules for the Croatian National Bank (continued)

- Interest income is higher in the statutory financial statements by the amount of collection of previously provided interest income. In the CNB schedules such income is recognized through impairment losses.
- In the CNB schedules, net foreign exchange differences are classified in positions Net interest income, net commission income and expenses from value adjustments. In the statutory financial statements all foreign exchange differences are classified in Net trading gain and gain from financial assets available for sale.
- Deposit insurance costs are classified as administrative expense in the statutory financial statements while in CNB schedules they are part of interest expense.
- In the income statement in the statutory financial statements rechargeable credit insurance costs increase the position Commission and fee expense while in the CNB schedules those expenses are classified as General and administrative expense.
- Expenses for donations, advertising, promotions and entertainment are reclassified from Other expenses to administrative expenses in the statutory financial statements.

Appendix II

Reconciliation of the statutory financial statements with the supplementary schedules for the Croatian National Bank (continued)

Reconciliation for the balance sheet at 31 December 2015 and 31 December 2014

HRK millions	2015 CNB schedules	2015 Statutory financial statements	2015 Difference	2014 CNB schedules	2014 Statutory financial statements	2014 Difference
Assets						
Cash and deposits with CNB	4,462	4,614	(152)	4,103	3,797	306
Treasury bills of Ministry of Finance and CNB	119	–	119	264	–	264
Financial assets at FVTPL	2,082	2,291	(209)	2,600	2,895	(295)
Financial investments held to maturity	277	283	(6)	342	411	(69)
Placements with and loans to other banks	969	955	14	982	1,428	(446)
Loans and receivables	19,680	19,626	54	21,798	21,780	18
Financial assets available for sale	4,989	5,028	(39)	3,287	3,328	(41)
Repossessed assets	86	–	86	83	–	83
PPE and intangible assets	1,702	1,677	25	1,755	1,711	44
Derivative financial assets	75	–	75	94	–	94
Deferred tax asset	–	206	(206)	–	156	(156)
Other assets	647	378	269	589	381	208
Total assets	**35,088**	**35,058**	**30**	**35,897**	**35,887**	**10**
Liabilities						
Due to other banks and deposits from customers	27,780	28,137	(357)	28,773	29,174	(401)
Long-term issued debt securities	–	–	–	–	–	–
Provisions for liabilities and charges	–	804	(804)	–	182	(182)
Derivative financial liabilities and other trading financial liabilities	107	111	(4)	247	250	(3)
Subordinated debt	840	846	(6)	460	464	(4)
Other liabilities	1,949	766	1,183	1,300	700	600
Total liabilities	**30,676**	**30,664**	**12**	**30,780**	**30,770**	**10**
Equity						
Share capital	3,633	3,633	–	3,633	3,633	–
Net (loss)/profit for the year	(156)	(156)	–	361	361	–
Retained earnings/(loss carried forward)	586	586	–	862	862	–
Hedging reserve	–	–	–	–	–	–
Unrealised gain /(loss) from available for sale fair value adjustment	82	82	–	17	17	–
Reserves	199	181	18	179	179	–
Total equity	**4,344**	**4,326**	**18**	**5,052**	**5,052**	**–**
Minority interest	**68**	**68**	**–**	**65**	**65**	**–**
Total liabilities and equity	**35,088**	**35,058**	**30**	**35,897**	**35,887**	**10**

Appendix II

Reconciliation of the statutory financial statements with the supplementary schedules for the Croatian National Bank (continued)

Reconciliation for the balance sheet at 31 December 2015 and 31 December 2014

	2015	2015	2015	2014	2014	2014
HRK millions	CNB schedules	Statutory financial statements	Difference	CNB schedulese	Statutory financial statements	Difference
Equity						
Share capital	3,633	3,633	–	3,633	3,633	–
Net (loss)/profit for the year	(156)	(156)	–	361	361	–
Retained earnings/(loss carri-ed forward)	586	586	–	862	862	–
Hedging reserve	–	–	–	–	–	–
Unrealised gain /(loss) from available for sale fair value adjustment	82	82	–	17	17	–
Reserves	199	181	18	179	179	–
Total equity	**4,344**	**4,326**	**18**	**5,052**	**5,052**	**–**
Minority interest	**68**	**68**	**–**	**65**	**65**	**–**
Total liabilities and equity	**35,088**	**35,058**	**30**	**35,897**	**35,887**	**10**

Appendix II

Reconciliation of the statutory financial statements with the supplementary schedules for the Croatian National Bank (continued)

The difference in total assets and total liabilities and equity of HRK 30 million as of 31 December 2015 (2014: HRK 10 millions) is the result of different presentation of deferred tax and tax liabilities in the balance sheet the CNB schedules in the statutory financial statements.

- Cash and balances with the CNB – balances on accounts with other banks 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, reclassified from Treasury Bills of the MoF to Financial assets at fair value through profit or loss.
- Financial investments held to maturity – the difference results from presentation of accrued interest within Other assets in the schedules
- Loans and receivables – Loans and advances to credit institutions have been reclassified to Loans to other banks and accrued interest within other assets.
- Deferred tax assets have been separately presented in the statutory financial statements as a separate line item, whereas in the CNB Schedules they are included in other assets.
- Prepaid rents and foreclosed assets have been presented in the statutory financial statements within Other assets, while in the CNB schedules foreclosed assets are presented as a separate line item and prepaid rents are presented within Property, plant and equipment and intangible assets.
- In the statutory financial statements, restricted deposits and other liabilities (deposits on the escrow account, investments in equity instruments of domestic corporate issuers) have been reclassified from Other liabilities into deposits from other banks and customers in the CNB schedules.
- Financial instruments held for short sales (spot transactions) in the CNB schedules are presents in Other liabilities, while in the statutory financial statements they are presented in Derivative financial liabilities and other trading financial trading liabilities.
- Provisions for liabilities and charges are presented separately in the statutory financial statements. In the CNB schedules, they are presented within Other liabilities.
- In the statutory financial statements reserves created by closing of inactive deposits are presented in Other liabilities, while in the CNB schedules they are disclosed under Equity.

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 2015	31 December 2014
1 EUR = HRK 7.635047	1 EUR = HRK 7.661471
1 USD = HRK 6,991801	1 USD = HRK 6.302107

Consolidated statement of financial position as at 31 December

Group	2015 EUR millions	2015 USD millions	2014 EUR millions	2014 USD millions
Assets				
Cash and current account with banks	345	377	239	291
Obligatory reserve with the Croatian National Bank	259	283	256	311
Financial assets at fair value through profit or loss	300	328	386	469
Placements with and loans to other banks	125	137	187	227
Financial assets available for sale	659	719	434	528
Loans and advances to customers	2,570	2,807	2,843	3,456
Financial investments held to maturity	37	40	46	55
Property, plant and equipment	194	212	198	241
Intangible assets	26	28	25	31
Deferred tax asset	27	29	20	25
Current tax asset	1	1	5	6
Other assets	49	54	45	54
Total assets	**4,592**	**5,015**	**4,684**	**5,694**

Consolidated statement of financial position as at 31 December

Group	2015 EUR millions	2015 USD millions	2014 EUR millions	2014 USD millions
Liabilities				
Financial liabilities at fair value through profit or loss	15	16	32	40
Deposits from banks	32	35	39	48
Deposits from companies and other similar entities	1,152	1,258	1,106	1,345
Deposits from individuals	1,944	2,123	1,965	2,388
Borrowings	557	608	698	848
Provisions for liabilities and charges	105	115	24	29
Other liabilities	100	110	91	111
Subordinated liabilities	111	121	61	74
Total liabilities	**4,016**	**4,386**	**4,016**	**4,883**
Equity				
Share capital	474	518	473	575
Share premium	2	2	2	2
Capital reserve	–	–	–	–
Legal reserve	24	26	23	28
Fair value reserve	11	12	2	2
Retained earnings	56	61	160	194
Total equity attributable to equity holders of the parent	**567**	**619**	**660**	**801**
Non-controlling interest	9	10	8	10
Total equity	**576**	**629**	**668**	**811**
Total liabilities and equity	**4,592**	**5,015**	**4,684**	**5,694**

Consolidated statement of comprehensive income for the year ended 31 December

Group	2015 EUR millions	2015 USD millions	2014 EUR millions	2014 USD millions
Interest income	190	208	226	275
Interest expense	(55)	(60)	(72)	(87)
Net interest income	**135**	**148**	**154**	**188**
Fee and commission income	92	101	82	100
Fee and commission expense	(32)	(35)	(28)	(35)
Net fee and commission income	**60**	**66**	**54**	**65**
Net trading income	20	22	25	31
Other operating income	45	49	48	59
Dealing and other income	**65**	**71**	**73**	**90**
Operating income	**260**	**285**	**281**	**343**
Operating expenses	(161)	(176)	(168)	(204)
Impairment losses	(42)	(46)	(52)	(63)
Provisions for liabilities and charges	(81)	(89)	(1)	(2)
Profit before tax	**(24)**	**(26)**	**60**	**74**
Income tax expense	4	5	(13)	(16)
Profit for the year	**(20)**	**(21)**	**47**	**58**
Other comprehensive income				
Net revaluation gain on available for sale financial instruments	9	9	1	1
Other comprehensive income for the year, net of tax	**9**	**9**	**1**	**1**
Total comprehensive income for the year	**(11)**	**(12)**	**48**	**59**
Profit attributable to:				
– Equity holders of the parent	(21)	(22)	47	57
– Non-controlling interest	1	1	–	1
Earnings per share attributable to the equity holders of the parent	**EUR (6)**	**USD (6)**	**EUR 13**	**USD 16**

Unconsolidated statement of financial position as of 31 December

Bank	2015 EUR millions	2015 USD millions	2014 EUR millions	2014 USD millions
Assets				
Cash and current accounts with banks	345	377	239	291
Obligatory reserve with the Croatian National Bank	259	283	256	311
Financial assets at fair value through profit or loss	256	279	348	424
Placements with and loans to other banks	130	142	191	232
Financial assets available for sale	621	678	403	489
Loans and advances to customers	2,277	2,487	2,485	3,021
Investments in subsidiaries	48	52	48	58
Property, plant and equipment	60	66	56	68
Intangible assets	25	27	24	30
Deferred tax asset	26	29	19	23
Current tax asset	1	1	6	7
Other assets	36	39	27	32
Total assets	**4,084**	**4,460**	**4,102**	**4,986**

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

Bank	2015 EUR millions	2015 USD millions	2014 EUR millions	2014 USD millions
Liabilities				
Financial liabilities at fair value through profit or loss	14	16	32	40
Deposits from banks	44	48	40	48
Deposits from companies and other similar entities	1,215	1,326	1,167	1,418
Deposits from individuals	1,793	1,958	1,796	2,183
Borrowings	236	258	320	389
Provisions for liabilities and charges	104	113	22	27
Other liabilities	41	45	33	40
Subordinated liabilities	111	121	61	74
Total liabilities	**3,558**	**3,885**	**3,471**	**4,219**
Equity				
Share capital	474	518	473	575
Share premium	2	2	2	2
Capital reserve	–	–	–	–
Legal reserve	23	25	23	28
Fair value reserve	8	9	–	–
Retained earnings	19	21	133	162
Total equity	**526**	**575**	**631**	**767**
Total liabilities and equity	**4,084**	**4,460**	**4,102**	**4,986**

Unconsolidated statement of comprehensive income for the year ended 31 December

Bank	2015 EUR millions	2015 USD millions	2014 EUR millions	2014 USD millions
Interest income	167	182	198	241
Interest expense	(45)	(49)	(60)	(73)
Net interest income	**122**	**133**	**138**	**168**
Fee and commission income	73	79	67	81
Fee and commission expense	(31)	(33)	(27)	(32)
Net fee and commission income	**42**	**46**	**40**	**49**
Net trading income/(expense)	17	18	20	24
Other operating income	9	10	11	13
Dealing and other income	**26**	**28**	**31**	**37**
Operating income	**190**	**207**	**209**	**254**
Operating expenses	(108)	(117)	(111)	(135)
Impairment losses	(41)	(45)	(49)	(60)
Provisions for liabilities and charges	(82)	(89)	(1)	(2)
Profit before tax	**(41)**	**(44)**	**48**	**57**
Income tax expense	9	10	(9)	(11)
Profit for the year	**(32)**	**(34)**	**39**	**46**
Other comprehensive income				
Change in fair value of financial assets available for sale, net of tax and realised amounts	8	9	(1)	(1)
Items that are or may be reclassified to profit or loss	**8**	**9**	**(1)**	**(1)**
Total comprehensive income for the year	**(24)**	**(25)**	**38**	**45**
Earnings per share	**EUR (9)**	**USD (9)**	**EUR 11**	**USD 13**

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