Survey of key data

Raiffeisen Group – Monetary values in HRK millions

	2016	Change	2015	2014
Income statement				
Net interest income	988	(4.36%)	1,033	1,182
Net commission income	437	(5.41%)	462	411
Trading profit (loss)	315	107.24%	152	194
Administrative expenses	(1,877)	52.48%	(1,231)	(1,286)
Profit before tax	695	–	(182)	465
Profit after tax	535	–	(150)	364
Consolidated profit	535	–	(156)	361
Balance Sheet				
Loans and advances to banks	1,332	39.48%	955	1,428
Loans and advances to customers	18,504	(5.72%)	19,626	21,780
Deposits from banks	441	79.27%	246	302
Deposits from customers	24,144	2.13%	23,640	23,527
Borrowings	3,992	(6.09%)	4,251	5,345
Equity	4,890	13.04%	4,326	5,052
Balance-sheet total	35,364	0.87%	35,058	35,887
Regulatory own funds				
Own funds	4,662	(1.85%)	4,749	4,885
Total capital requirement	1,847	(6.20%)	1,969	2,071
Core capital ratio	16.93%	1.04 PP	15.89%	17.10%
Total capital ratio	20.19%	0.89 PP	19.30%	18.87%
Performance				
Return on equity (ROE) before tax	15.81%	–	(4.06%)	8.87%
Cost/income ratio	61.40%	2.27 PP	61.86%	59.59%
Earnings per share (HRK)	147	–	(43)	100
Return on assets (ROA) before tax	1.97%	–	(0.51%)	1.29%
Provisions for possible loan losses/risk – weighted assets	13.72%	0.07 PP	13.65%	11.84%
Resources				
Employees as at reporting date	2,309	(0.43%)	2,319	2,329
Banking outlets as at 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 2016 Annual Report as audited by KPMG, the international firm of auditors.

Last year, Raiffeisenbank Austria's profit after tax was HRK 460 million, while the profit at local Raiffeisen Group level was HRK 535 million. In the first half, considerable resources were engaged on the conversion of CHF-denominated loans to EUR, but our employees were able to fully focus their efforts on the core customer service activity.

The economic recovery had a positive effect on operating conditions. While historically low market interest rates brought about a decline in interest income, operating risks were also lower. Thus, risk provisioning reverted to the level which was last observed in the years prior to recession. However, the pace of economic recovery was slow in translating into demand for loans. Loan repayments in 2016 still exceeded new loan disbursements, leading to a decline in the total loan volume.

A fall in the general price level continued over the past year. Lower prices of goods and services helped boost the disposable income of households; meanwhile, deflation was accompanied by a general decline in market interest rates, which reduced the financial cost of debt repayment to customers. Nevertheless, such developments resulted in some potential borrowers delaying their decision to take out new loans in the expectation of even more favourable borrowing conditions in the future.

Croatia's financial markets saw increased liquidity, which strengthened the pressure on declining market interest rates. The deleveraging process in the retail sector received a one-time boost from the loan conversion from CHF to EUR. Fiscal consolidation was positively he reflected in the confidence of investors in the public debt, while also reducing the State and public-sector corporations' demand for bank loans. 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 the improved average creditworthiness of borrowers. However, loan demand remained at a low level owing to an increase in non-commercial sources of funding, so the take-up of the banking sector's loan potential dampened in its turn. Banks used their excess liquidity to reduce secondary sources of funding. In mid-2016, the deleveraging process of banks was almost complete, so excess liquidity in the system reached record high levels by the end of the year.

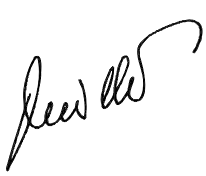
With the conversion process completed, Raiffeisenbank Austria as well as the local Raiffeisen Group face a strategic challenge of adjusting to the market changes resulting from Croatia's accession to the European Union. In addition to the banking offer from the common European market, the availability of alternative financial services has also increased. Therefore, the Bank has sought to leverage its well-developed distribution network and long-term customer relations. A comprehensive range of financial products and services developed to suit customer needs gives it competitive advantage over peers from other markets which has been used consistently to achieve its strategic goal.

The second strategic goal is adjusting to rapid technological changes while also maintaining its focus on customer needs. As new technologies diminish the advantage provided by long-term local operations, a high level of product and service innovativeness is a must in the constant efforts to maintain market recognition. In doing so, we insist on the highest level of security in customer service. In 2016, we made further progress on the Customer Centricity project, directing overall operations to customer needs. The economic recovery was an opportunity to strengthen both sales activities and service quality provided to customers. Adjustment of the product range to the increasing demands of customers was achieved by improving business processes and developing services. Human resource management was enhanced through a system for rewarding and promoting employees. Thanks to continual training, employees are able 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 credit institutions on the Croatian market. Together with the local Raiffeisen 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 segment, the offer of loans from local and international development bank funds was developed further, as was support for using European Union funding. Small and medium-sized enterprises were additionally financed within the local Group through factoring services for working capital needs, and through leasing services for fixed-asset investments. Household demand for loans changed owing to better knowledge of currency and interest rate risks. Customers predominantly sought fixed-rate kuna loans, resulting in adjustment in the loan product range. Due to a protracted crisis on the real estate market, demand for housing loans remained subdued. The level of demand for general-purpose loans is stable. These are approved in smaller amounts and at shorter repayment terms than for fixed-purpose loans. That segment of the loan offer was adjusted to customer requirements for fixed-rate kuna loans.

Within the local Raiffeisen Group, the process of integrating sales to optimize costs through process improvements was well under way. The downward interest rate trend on the money markets had a negative effect on the attractiveness of savings and investment products. Declining yields on debt instruments was positively reflected in the value of pension and investment funds, and so the funds segment of the local Group business achieved significant growth.

To achieve the strategic goals and planned operating results, it is essential to adapt operations to market conditions and customer requirements. Through optimal use of our resources, we are improving service quality and operational efficiency. Our main goal is to increase customer satisfaction. Thanks to 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.



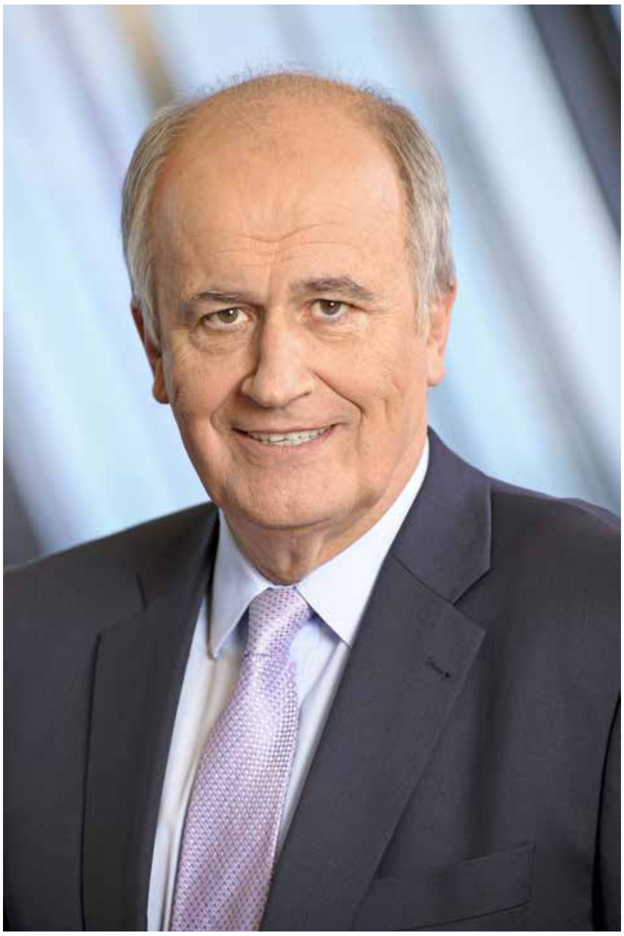
Michael Georg Müller
Chief Executive Officer

Report of the Supervisory Board

Ladies and Gentlemen,

The 2016 financial year was dominated by two key issues: Firstly, the market environment, which remained challenging due to the very low interest rate level and continuing high regulatory and political pressures; secondly, the start of the process of evaluating a merger of RBI and RZB.

The capitalization requirements for banks were increased substantially following the 2008 financial crisis and there has also been extensive tightening of regulations by the national and international regulatory authorities. February 2015 saw the implementation of a transformation program designed to strengthen the capital base – it targeted a CET1 ratio (fully loaded) of at least 12 per cent, a reduction of complexity and a substantial reduction of costs. With a CET1 ratio (fully loaded) of 13.6 per cent at 31 December 2016, RBI achieved its target ahead of schedule.



Following an extensive evaluation phase, on 5 October 2016, the Management and Supervisory Boards of RBI and RZB passed in principle a resolution to merge RBI and RZB. The Extraordinary General Meeting of RBI approved the merger with RZB by a clear majority on 24 January 2017. The merger is effective once it has been entered in the commercial register, which is expected by the end of March 2017 at the latest.

The strengths of the merged entity will build on prior achievements. These include the geographic footprint in the attractive growth markets of CEE, with top-five market positions in 9 of a total of 14 markets, as well as a stable business in Austria. The focus will remain on long-term customer relationships in the respective local markets. As a customer-oriented universal bank, solutions to address corporate customer needs based on local market access and an extensive network, along with a comprehensive multi-channel offering for retail customers in CEE, play an important role in the overall focus.

As far as Raiffeisenbank Austria d.d. Zagreb is concerned, the results achieved reflect its successful operational adaptation to changing customer requirements. The effects of the expansive monetary policy spilled over from the euro area to the financial markets in its neighbourhood. The loan supply increased while excess liquidity heightened pressure on market interest rates. Despite the economic recovery and reduced financing costs, demand for loans and other financial services stagnated. Under constant pressure to reduce interest rates, a downward interest income trend was also observable. On the other hand, the economic growth had a positive effect on credit risks. The average customer risk was reduced, allowing provisions for impairment losses to be decreased.

The risk management policy was adjusted to changes in the market. Our success in the sale of services was driven by the implementation of a customer-centric process of streamlining business operations. Business processes were improved, and the efficiency of distribution channels was enhanced, as was the innovativeness of services in line with our customers' recognized needs. Timely streamlining to meet our customers' needs in a highly competitive market was implemented according to the highest operating standards within the RBI Group. Synergy was generated by the transfer of experience, knowledge and skills within the Group applying best practice. Operational support is thus continuously improving in order to meet rising operational and regulatory requirements.

The profit for the year has had a positive impact on the capital of Raiffeisenbank Austria and of the local Group. As asset risks were reduced, the high total capital adequacy level increased further. Strengthening of the capital base allows for an acceleration of the credit activity in the period ahead of us.

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

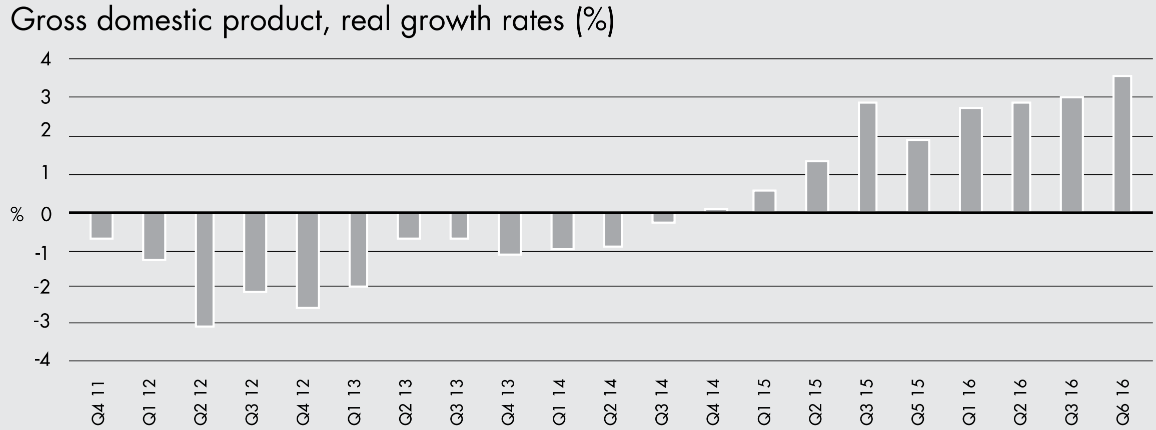
Economic review

The global economic trends in 2016 were characterized by a further divergence of the monetary policies of the world's two largest central banks, as well as by political developments and uncertainties on both sides of the Atlantic. The European Central Bank continued to pursue its policy of flooding the markets with central bank money; as early as March, it cut the main interest rate from 0.05 per cent to zero and broadened its set of unconventional measures by increasing the monthly bond repurchase program to EUR 80 billion. On the other side of the Atlantic, after a long delay the Federal Reserve raised the US benchmark interest rate by 25 basis points in December, hinting at more reference rate hikes to come in 2017. The latter was substantiated by solid macroeconomic indicators (especially from the labour market) and a rising annual inflation rate. Increased volatility in financial markets in 2016 came as the consequence of the UK Brexit vote late in June, followed by the results of US presidential elections held in November. The British decision to leave the European Union shook financial markets and for a brief period brought about both substantial currency and stock market volatility, as well as changes in bond risk premium trends. The arrival of President Donald Trump, who announced a more expansionary fiscal policy, had a strong impact on the perception of risk, particularly with regard to emerging markets. After rising in the first half of the year, the price of crude oil finally stabilized in the third quarter of 2016. However, the September informal meeting of OPEC members brought another surprise for market participants as crude output cuts were announced (for the first time since 2008) in an attempt to stabilize the global crude oil market, the crude price came under pressure again. The market reaction was reflected in heightened expectations that the hike in energy source prices could give a boost to inflation across the world's economies. Croatia's major foreign trading partners experienced relatively favourable economic developments, with Germany leading the way. Along with steady personal consumption, the greatest contribution to that country's economic growth came from exports, mostly to other Eurozone members, thus making up for rather weak global demand. Italy was plagued by record below-average growth (mainly due to the weakness of its banking sector and scarce investments) while, in Austria, economic developments were more robust than a year earlier. The Slovenian economy also continued to record steady growth, thanks primarily to exports and despite a slight decline in domestic demand. Croatia's trading partners in the region saw mostly positive changes in 2016. Croatia somewhat benefited from the problems in competitor tourist destinations to end the year with a record tourist season that had synergy effects on the rest of the economy.

Macroeconomic indicators

The 2016 economic growth certainly exceeded the expectations among even the most optimistic observers. Croatia finally caught up with the recovery dynamics in Central and Eastern Europe, with good prospects for a continuation of this trend in 2017 as well. Following six years of recession and a positive economic growth rate in 2015 (+1.6 per cent), the pace of real GDP growth growth quickened to 2.9 per cent this past year, spurred primarily by excellent tourism results and accelerated recovery of personal consumption. A positive contribution to the GDP growth also came from domestic demand (3.0 p.p.), mainly driven by a growth in its largest component – personal consumption, which grew by 3.3 per cent in real terms. While the greatest positive contribution to the growth in GDP in 2016 came through increased exports of goods and services (growing at an annual rate of 6.7 per cent), the contribution of net foreign demand was slightly negative, pointing to a continued dependence of exports (as well as of the entire Croatian economy) on imports. State consumption rose by 1.7 per cent over the past year while, on the other hand, the pace of growth in investment quickening to 4.6 per cent (from 1.6 per cent in 2015) was indeed encouraging. An indication of investment growth came from real sector data, but also from better utilization of EU funding. The greatest contribution to GVA growth came from the manufacturing industry (which

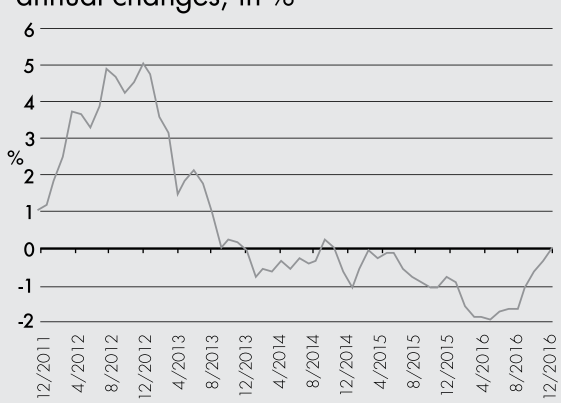
Gross domestic product, real growth rates (%)



Gross domestic product, real growth rates (%)

grew by 4.8 per cent year-on-year). Although the average unemployment rate fell for the third consecutive year, this still does not completely reflect the structural improvements on the labour 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 further dynamism of economic migration due to employment abroad. There was a negative inflation rate (1.1 per cent) in 2016 for the third 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 favourable impact on increasing real income and consumption. In December, however, the annual inflation rate returned to the positive territory as a result primarily of intensified imported inflationary pressures, above all from the crude oil and food commodity markets. Along with a relatively robust growth of goods exports, the deflationary environment also had an impact on the nominally lower value of imports. This eventually helped mitigate the foreign trade deficit, widening by 5.6 per cent on an annual level to reach EUR 7.4 billion. For the fourth

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



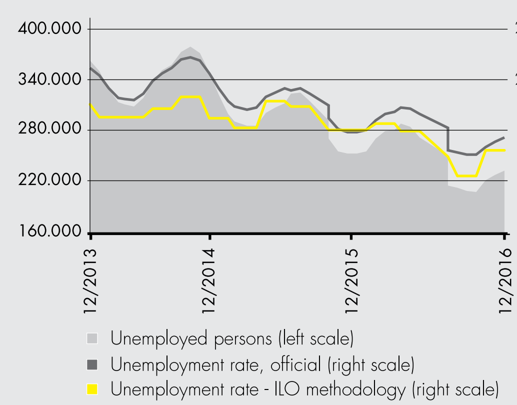
Source: CBS, Raiffeisen RESEARCH

consecutive year, Croatia closed the year with a current account surplus (2.6 per cent of GDP), largely owing to a record inflow of foreign currency due to the good tourist season. At the end of December, the gross foreign debt decreased to EUR 41.7 billion, or 91.4 per cent of GDP, with a further deleveraging in the financial sector making the biggest contribution to its fall. Thus, it fell below the level of 100 per cent of GDP for the first time after seven years. Alongside the foreign debt decrease in the corporate sector as well as the public sector, at the year end the EUR/HRK exchange rate was 1 per cent lower than in 2015, which helped temper the gross foreign debt statistically.

Fiscal and monetary movements

The year 2016 will be remembered for the fiscal consolidation which, spurred strongly by two key factors, was beyond expectations. On the one hand, the record tourist season ensured solid gains to the State budget, especially evident on the items of indirect taxes (primarily VAT) and excises. On the other hand, under exceptionally tumultuous political circumstances (a changeover of as many as three Prime Ministers in the course of 2016), the past fiscal year started off with temporary financing that effectively froze public consumption during the first quarter. This was quickly followed by a period of caretaker Government, and eventually, early parliamentary elections were held in September. In such an environment, there was a significant reduction in the consolidated general government deficit, which (according to ESA2010 methodology) declined to 0.8 per cent of GDP last year. Consequently, but also thanks to the postponement of a Croatian eurobond issue on the international financial market, came a change in the very structure and amount of the public debt, which stood at HRK 289.1 billion at the year end (with its ratio to GDP falling to 84.2 per cent for

Number of unemployes and registeres unemployment rate

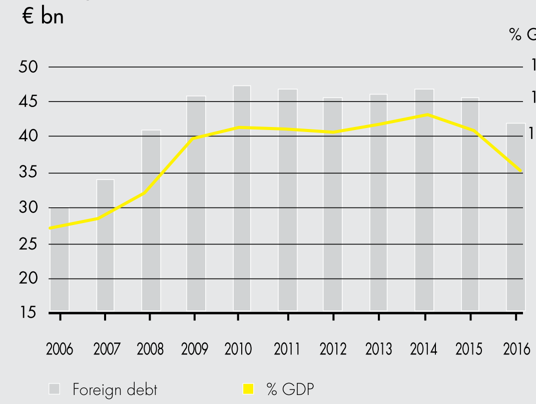


Source: CBS, CES, Raiffeisen RESEARCH

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

the first time after eight years). The high liquidity environment on the local market (further aided by expansionary central bank measures) allowed a foreign portion of the public debt to be substituted by domestic borrowing, which in turn helped improve the external vulnerability indicator.

Foreign debt
€ bn

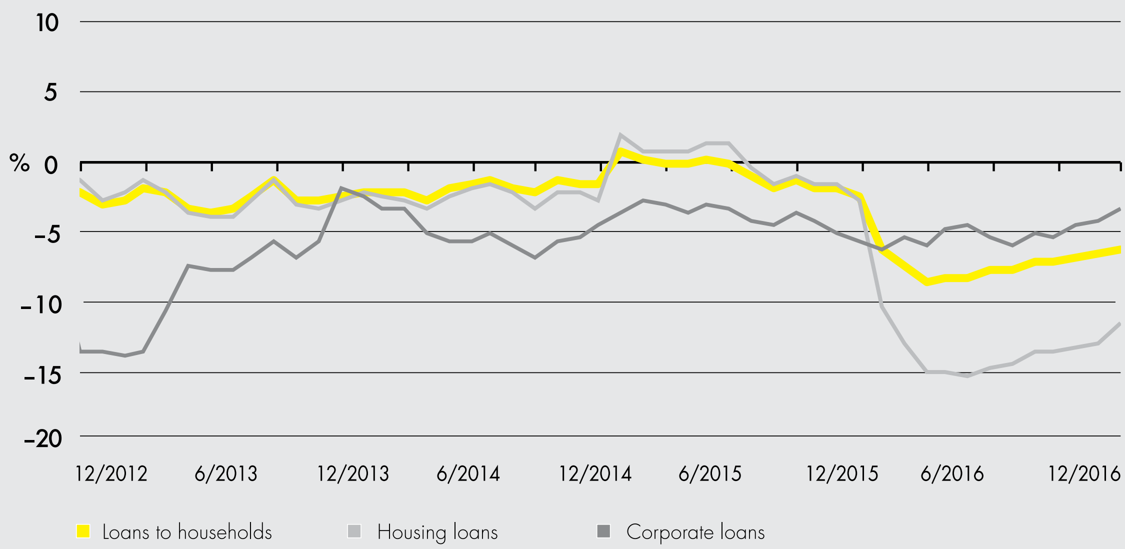


Source: CNB, Raiffesein RESEARCH

Shortly after the early elections were held, at the very close of 2016, the Croatian Parliament voted in, with a substantial majority, a series of acts to govern a new tax reform and adopted the State budget for the following three years. The opportunity cost related to projected tax revenue losses under the latest tax changes relies on a further rationalization on the expenditure side, as well as on the expectations of yet another successful tourist season. Although both the business community and the general public welcomed the tax relief aimed at boosting personal income and profits, the expenditure side of the State budget nevertheless continues to mirror a well-known rigid structure dominated by the expenses for social benefits, the employed and interest payments. Therefore, while the relevant credit rating agencies have recognized last year's consolidation in revising the credit outlook from negative to stable, the conclusion is that, in order for the credit rating to revert to the investment grade, Croatia needs to implement well-known public system reforms.

The monetary policy maintained its expansionary stance last year. The Croatian National Bank pressed on with its regular weekly repo auctions and, to ensure longer-term kuna liquidity, it also conducted four structural operations totalling approximately HRK 1 billion. In the circumstances of improved macroeconomic fundamentals, some appreciation pressures came to bear on the kuna, so the CNB intervened (by buying foreign currency from banks) on four occasions in the course of 2016. Besides a mitigation of fiscal risks and significant foreign currency inflows from tourism, the domestic currency was also supported by a substantial current account surplus, positive net external position of the banks, as well as a rising demand for kuna loans.

Loans of the banking system, annual changes in %



Source: CNB, Raiffeisen RESEARCH

Summary of macroeconomic indicators for the period from 2012 to 2016

	2016	2015	2014	2013	2012
GDP & Production					
Gross Domestic Product, % (constant prices)	2,9	1,6	-0,5	-1,1	-2,2
GDP at current prices (EUR millions)	45.581	43.870	43.002	43.516	43.959
GDP per capita at current prices (EUR)	10.771	10.352	10.147	10.220	10.301
Retail trade, % real annual changes	4,0	2,4	0,4	-0,6	-4,1
Industrial production, % annual changes	5,3	2,7	1,2	-1,8	-5,5
Prices, Employment and Budget					
Consumer Prices, %, eop	0,2	-0,6	-0,5	0,3	4,7
%, avg	-1,1	-0,5	-0,2	2,2	3,4
Producer Prices, %, eop	-0,1	-4,4	-3,4	-2,6	6,9
%, avg	-4,1	-3,9	-2,7	0,5	7,0
Unemployment rate (official rate, avg)	14,8	17,0	19,6	20,2	18,9
Unemployment rate (ILO, avg)	13,1	16,3	17,3	17,4	15,9
Average net wage, in HRK	5.685	5.594	5.534	5.515	5.478
General Government Balance, % of GDP[1]	-0,8	-3,4	-5,4	-5,3	-5,3
Public debt, HRK billion [1]	289,1	289,6	284,2	270,8	233,6
Public debt, % of GDP [1]	84,2	86,7	86,6	82,2	70,7
Balance of Payment and External Debt					
Good's and Services Exports, EUR million	22.801	21.512	19.691	18.771	18.336
% change	6,0	9,3	4,9	2,4	1,2
Good's and Services Imports, EUR million	21.366	20.414	18.843	18.573	18.116
% change	4,7	8,3	1,4	2,5	-1,0
Current Account Balance, % of GDP	2,6	4,8	2,1	1,0	0,0
Official International Reserves, EUR million, eop	13.514	13.707	12.688	12.908	11.236
Official International Reserves, in terms of months of imports of goods and services, eop	7,6	8,1	8,1	8,3	7,4
Foreign Direct Investment, EUR million [2]	1.706	192	2.292	737	1.150
Tourism – nightstays, % change	9,0	7,7	2,6	3,3	4,0
External debt, EUR billion	41,7	45,4	46,4	45,8	45,3
External debt, as % of GDP	91,4	103,4	107,9	105,3	103,0
External debt, as % export of goods and services	182,7	211,0	235,7	244,0	247,0
Monetary and Financial Data					
Exchange rate, eop, USD/HRK	7,17	6,99	6,30	5,55	5,73
avg, USD/HRK	6,80	6,86	5,75	5,71	5,85
Exchange rate, eop, EUR/HRK	7,56	7,64	7,66	7,64	7,55
avg, EUR/HRK	7,53	7,61	7,63	7,57	7,52
Money (M1), HRK billion, eop	83,5	70,7	63,4	57,9	51,9
% change	18,1	11,4	9,6	11,5	0,9
Broadest money (M4), HRK billion, eop	300,9	287,4	273,3	264,9	254,7
% change	4,7	5,1	3,2	4,0	3,6
Credits, HRK billion	221,5	230,0	237,0	240,8	242,1
% change	-3,7	-2,9	-1,6	-0,5	-5,9
ZIBOR 3m, %, avg	0,9	1,2	1,0	1,5	3,4
Treasury bills rate 12m, %, avg	1,0	1,5	1,9	2,5	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

2016 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 2016 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 until 30th June 2016)
Marcus Kirchmair (Member from 30th June 2016)
Robert Fritz (Member from 1st September 2016)
Kemal Kozarić (Member from 1st September 2016)

Members of the Management Board

Michael Georg Müller
Chairman

Ivan Žižić
(Member from 1st January 2016)

Vesna Ciganek-Vuković
Member

Liana Keserić
(Member from 1st January 2016)

Zoran Košćak
Member

Marko Jurjević
Member

Chief executives

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

Vision

We will be the Number 1 bank in Croatia in terms of customer satisfaction and employee pride. Our customers will most frequently be recommending us to others, and that will be a strong foundation for our repositioning among leading banks in the Croatian market. Our success will be an incentive to all our employees and shareholders to continue to reinforce the bank's role in Croatia's economy.

Mission

We are a highly-motivated team of finance professionals who always go the extra mile for our customers so that they can always be a step ahead in the accomplishing their personal and business plans. Our services are based on the experience of our staff, our European banking tradition and modern requirements of bank customers. In each interaction, we want our customers to feel the simplicity of banking with us, as well as the speed and availability of our services. We listen to and understand our customers and build a lasting partnership with them. We feel proud about the success of each of our customers. Then our mission is accomplished.

Organisational procceses

Since its establishment in 1994, the Bank 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, the Bank 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 the Bank on its path to business success and stable business growth.

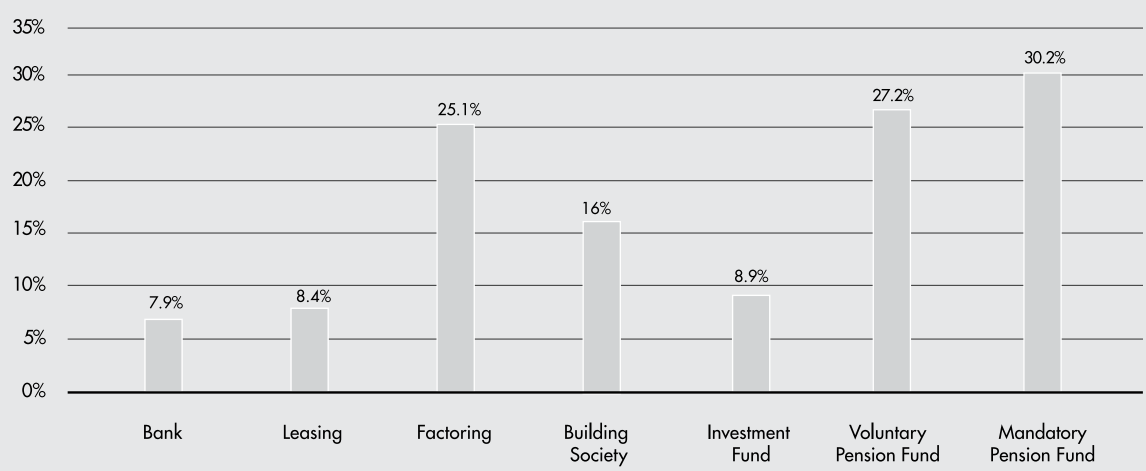
Management report

Market position

Raiffeisenbank Austria and the local Raiffeisen Group are registered for operation in the Croatian market. Raiffeisenbank Austria is a credit institution with a significant market position and ranks fourth on the market in terms of total assets. The subsidiary Raiffeisen Stambena Štedionica is a credit institution registered for services defined by special regulations which holds a substantial market share in the housing savings segment. Raiffeisenbank Austria also has other subsidiary financial institutions specializing in leasing and factoring business, as well as investment and pension fund management companies. All these subsidiary financial institutions are significant for the local market, with the Raiffeisen Pension Insurance Company being the only company in the market registered to engage in that activity.

The results of Raiffeisenbank Austria and the local Raiffeisen Group depend on operating conditions in the financial market and fluctuations in the real economy. The quicker pace of economic growth and high liquidity in the financial system helped improve debt collection from customers which was in turn positively reflected in the operating results of credit institutions, as well as the operations of financial institutions offering credit substitutes on the market. Fund assets grew thanks to increased valuations of debt and equity investments last year.

Market share of Raiffeisen Group members



The operating conditions on the Croatian financial market in 2016 were characterized by deflationary pressures, high systematic liquidity and a reduction in the cost of capital. As lower credit risks had a positive impact on the operating results of credit institutions, the credit institutions sector had aggregate profits after tax of HRK 5.1 billion.

Credit activity in the local market began to recover in the second half of the year. However, increased sales of non-performing loans (NPL) to the companies specializing in debt collection had a negative impact on the total loan volume, so an increase in new loan disbursements remained disguised by a decrease caused by NPL sales.
Total deposits saw no decline, while loan repayments and sales increased liquidity in the system.

The constant excess liquidity heightened the pressure to reduce the cost of capital. Money-market interest rates fell to their historically lowest levels. A decline in prices of imported goods – in parallel with lower interest rates, first on the money market, then on deposits, and finally on loans – resulted in an increase in disposable household income available for consumption. An additional stimulus to consumption and investment comes from amendments to tax regulations by which personal income and corporate income tax rates will be cut starting from 2017. Thus, consumer and corporate optimism increased towards to the end of the year, having a positive impact on demand for loans.

The State sector tapped the financial markets to secure financing 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. The economic recovery in 2016 helped an increase in budget revenue and a reduction in the central government budget deficit. This brought about a halt to the years of increase in the public debt. The sovereign credit rating remained two levels below investment grade. Standard & Poor's rating agency upgraded its outlook on Croatia from negative to stable in December 2016, while Fitch and Moody's announced the same outlook revision in January and March 2017, respectively. The yield achieved by the State when refinancing its due liabilities was significantly lower than at the time of the borrowing. This also reduced the yield earned by banks and other financial institutions when investing the Croatian sovereign debt.

Appreciation pressures on the kuna exchange rate against the euro prevailed in 2016. But thanks to occasional central bank interventions through foreign currency purchases, the exchange rate stability was maintained, with oscillations within the range of 2.8 per cent. The growth in customer deposits compared to bank loans helped bank deleveraging, thus excluding the effect of the country's risk premium on the movement of the cost of capital in the financial system. Bank offered loans to customers with a good credit rating at considerable lower prices than financing the State debt of the same maturity.

The corporate sector recorded growth in industrial production and higher exports of goods and services. Positive developments in the real sector were reflected in corporates relations with financial institutions. Corporations increased their deposits at banks, and reduced their borrowings. The growth in investment stimulated a recovery in leasing business, while a high liquidity decreased the demand for factoring services. The favourable conditions on the financial markets and in the real economy were 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 loan rates, and the real income of households grew because of deflation resulting from the decline in import prices. Real estate represents a significant household asset. However, the inclusion of legalized properties on the real estate market is slowing down the price recovery. Positive developments in the disposable household income are increasing loan demand, but the 2016 conversion of the CHF to EUR loans had an impact on the market, so the positive shifts in the total household loan demand intensified towards the end of the year.

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, as the average risk in the corporate sector decreased in parallel with the economic recovery. In the household sector, the long-term declining trend in the number of employed persons was halted, and real wages increased. The conversion of loans from CHF to EUR reduced the exposure of borrowers to credit and exchange-rate risks. The quality of the household loan portfolio is better than that of corporations, with favourable economic trends helping to reduce credit risks.

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 regulation by which the central bank maintains financial stability. Other factors of exposure to sovereign risk are the temporary excess liquidity that the banks hold in their CNB accounts, as well as investment activities in Croatian government debt instruments, the government's direct borrowing from banks and other financial institutions, and its 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 2016, the mandatory reserve ratio was 12 per cent of bank liabilities. No interest is paid by the CNB on funds set aside for the mandatory reserve requirement.

Business activities of the Bank

Raiffeisenbank Austria d.d. Zagreb was registered in December 1994, as the first bank in Croatia to have been founded by foreign capital. Its business strategy is focused on developing and offering its customers a comprehensive range of financial services. Along with the expansion of its branch network, since 1999, Raiffeisenbank Austria has established financial service companies for the fields governed by special regulations (the local Raiffeisen Group). At the end of 2016, Raiffeisenbank Austria served customers via 70 branches, 423 ATMs and more than 7,000 thousand POS devices contracted with merchants in Croatia and through additional digital sales channels.

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 companies specializing in specific financial services.

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 Supervisory Agency). All members of the local Raiffeisen Group are registered in Croatia and operate under Croatian regulations.

Raiffeisenbank Austria has been adjusting to market changes and customer demand for financial service since the time it was founded. Since 2010, it has implemented the recognized Lean corporate culture of business process improvement, aimed at achieving the highest level of excellence and customer service value, while simultaneously increasing internal efficiency. The dynamic organizational development, continuing analysis of service quality, team work and employee motivation contribute to achieving the strategic goals in business operations.

At the end of the year, Raiffeisenbank Austria had 2,052 employees, 30 fewer than in the previous year. The number and structure of employees are defined by long-term strategic planning, and have been aligned with regulatory demands and business plans. Raiffeisenbank Austria is managed by the Management Board, consisting of six members.

Financial result of the Bank

Raiffeisenbank Austria's assets totalled HRK 31,416 million at the close of 2016, an increase of HRK 235 million from the previous year. The customer loan volume declined by HRK 1,174 million, but the total assets still increased thanks to the liquid asset growth of HRK 1,549 million. The share of liquid assets in the total assets increased to 44 per cent, while the share of customer loans decreased on 52 per cent.

Total loans to customers at the end of the year amounted to HRK 16,213 million, a decline of 7 per cent on an annual level. The first half of 2016 saw a significant decline of loans in the household sector owing to the loan conversion from CHF to EUR at the historic exchange rates. In accordance with the act passed in the previous year, the amounts of customers' due debt were reduced by conversion and any excess payment of interest was also recognized. Following the conversion of loans to EUR, customers increased their demand for kuna loans. In the first half of the year, new kuna loans were used mostly to refinance loans denominated in EUR. In the second half of the year, new borrowing was mostly denominated in HRK. Loans in EUR are gradually being paid off, so their share in total household loans has decreased. The share of loans indexed to foreign currencies in the household sector decreased by 10 pp in one year, accounting for 44 per cent of total household loans at the end of the year. In addition to being exchange-rate risk averse, the household sector has sought more protection against interest-rate risk and has increase demand for fixed-interest kuna loans.

In the corporate sector, the declining loan portfolio trend slowed down. In the two-year period prior to 2016, corporate loans were reduced due to the implementation of pre-bankruptcy proceedings in both the SME and corporate segment, as the latter increased foreign borrowings to refinance outstanding loans. Last year saw an increase in corporate demand for kuna loans, while the demand for euro loans stagnated. Therefore, the loans denominated in foreign currencies decreased, with a recovery of corporate HRK loans in the second half of the year. Last year saw an increase in total corporate and household deposits by HRK 321 million. Corporate deposits rose by 9 per cent, while household deposits declined by 4 per cent. The household deposit decline is a result of decreased deposit interest rates in the circumstances of excess liquidity. Household deposits amounted to HRK 13,195 million at the end of the year, and had a share of 49 per cent in total liabilities of Raiffeisebank Austria d.d.

Equity capital of HRK 4,450 million was 11 per cent higher than at the beginning of the year. The increase in equity capital is mainly accounted for by the profit of HRK 460 million. Following the increase in equity and reduced risk exposure on account of customer loans, Raiffeisenbank Austria's capital adequacy ratio rose to 22 percent.

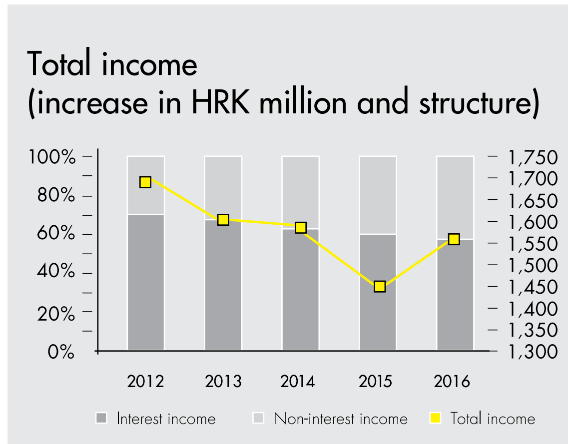
Bank financial highlights for the period from 2012 to 2016

Bank **HRK millions**	**2016**	**2015**	**2014**	**2013**	**2012**
From Balance Sheet as at 31 December					
Total assets	31,416	31,181	31,419	33,005	35,553
Shareholders' equity	4,450	4,014	4,827	5,343	5,429
Customer accounts	23,285	22,964	22,698	21,914	22,878
Loans to customer	16,213	17,387	19,035	22,090	22,824
From Income Statement for the year ended 31 December					
Operating income	1,557	1,448	1,604	1,614	1,685
Operating expenses	1,481	822	853	835	853
Profit before tax	585	(311)	364	327	432
Net profit for the year	460	(241)	294	276	364
Ratios	%	%	%	%	%
Return on average shareholders' funds	11.46	(5.75)	6.48	5.09	6.48
Return on average assets	1.47	(0.77)	0.91	0.81	0.98
Capital adequacy ratio (in accordance with the Croatian National Bank methodology)	22.18	21.13	21.33	18.73	18.30
	HRK	HRK	HRK	HRK	HRK
Earnings per share	127	(66)	81	76	101

Last year was dominated by high liquidity in financial markets, resulting in the decrease of interest rates that Raiffeisenbank Austria d.d. had agreed on customers' fixed-term deposits and loans. Declining yields on debt investments allowed gains to be made on the revaluation of the portfolio valued at market prices.

In 2015, Raiffeisenbank Austria created HRK 617 million in provisions to cover the losses of CHF loan conversion to EUR, resulting in the loss after tax of HRK 241 million. The conversion was completed in the first half of 2016, but thanks to previous provisioning, it had no negative impact on the business result for the year in which the conversion was implemented. Raiffeisenbank Austria ended 2016 with a profit after tax of HRK 460 million.

Net interest income was 3 per cent lower on an annual basis due to the decline in overall loans, the fall of loan interest rates and yields on debt instruments. Net fee income showed a decrease of 7 per cent. Net gains from trading in financial instruments and other operating income was 83 per cent higher. The sale of assets, namely, the share in Visa International card company for HRK 56 million, had a positive one-off effect on the business result.



Total operating expenses amounted to HRK 1,481 million – 80 per cent higher on an annual basis. But, excluding the HRK 655 million cost of conversion, total operating expenses remained unchanged compared to the previous year. Personnel costs decreased by 1 per cent, reflecting the equivalent decline in the number of employees. Deposit insurance premiums are calculated from the amount of secured deposits, but the premium amount depends on the risk profile of Raiffeisenbank Austria. As liquid asset risk is lower on average than loan risk, structural changes in the Bank's assets contributed to a decrease in deposit insurance premium and the cost of the bank resolution fund formation. Compared to the previous year, the costs of savings deposit insurance were 7 per cent lower.

The operating expenses of Raiffeisenbank Austria rose by HRK 659 million, mostly due to the CHF to EUR loan conversion cost of HRK 655 million, with a simultaneous release of HRK 611 million in risk provisions formed in the previous year. In the business unrelated to the conversion, risk impairment charges to loans and other balance sheet assets resulted in losses of HRK 108 million, an improvement of HRK 206 million compared to the previous year's HRK 314 million. Risk provisioning expenses were reduced owing to the favourable impact of the economic recovery, which translated into improved debt collection in the circumstances of excess liquidity. In the period of economic recession and difficulties in the collection of claims from customers, Raiffeisenbank Austria improved its debt collection process, as well as the collection from the collateral received through a comprehensive process of monitoring, early warning and collection of debts in the early, late and enforced debt collection phases.

Business development of the Bank

The founder of Raiffeisenbank Austria d.d. is Raiffeisen Bank International (RBI), 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 advanced 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 enhancing the product range and encouraging innovation among employees.

Along with the activities aimed at increasing operating income, the business development also includes measures to improve work productivity and safety standards, technological improvements and further develop the business process management. All professional, organizational and technological resources available 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 Raiffeisenbank Austria's innovative product range and the development of financial services that are responsive to customer demand.

The priorities of the development function include enhanced functionality of the support system for the purpose of compliance with regulatory changes in the operation of credit and other financial institutions. Additional improvements are made in order to align business processes within the affiliated international financial group (RBI), as well as regarding the competitiveness of the local market offer.
The economic growth accelerated in 2016. Positive changes in market conditions reduced the level of customer

risk aversion. However, the restrictiveness of the credit policies of other banks operating in the local market was also loosened. Raiffeisenbank Austria d.d. is expecting further growth of demand for kuna loans in the future, so it will focus its efforts on strengthening the primary sources of funding for kuna financing in order to efficiently manage risks.

Other strategic goals in the business development include the introduction of innovative sales channels for not only the standard, but also new types of services created on digital platforms. Thus, Raiffeisenbank Austria and the local Raiffeisen Group are adjusting to customer demands, while taking due care to maintain a high level of service quality and security in customer transactions.

Events after the end of the financial year

The process of merger of Raiffeisenbank Austria's ultimate owner, Raiffeisen Bank International AG company, with its majority owner Raiffeisen Zentralbank AG, which began in 2016, was completed on 18 March 2017 by registration of the merged company in the commercial register. Following the merger, the company has continued its operations under the name Raiffeisen Bank International AG. Its total balance sheet after the merger was EUR 135 billion (as at 31 December 2016).

RBI is among the leading commercial and investment banks in Austria. It covers 14 markets in the CEE region through a network of subsidiary banks. In addition, the RBI Group also includes a number of other financial services providers, such as leasing and asset management. In total, around 50,000 employees service 17 million customers through approximately 2,500 branches, the majority of which are located in CEE.

RBI has kept its 100-per cent equity holding in Raiffeisenbank Austria, so the merger has no major impact on the operations of Raiffeisenbank Austria d.d. or the local Raiffeisen Group. This strategic move has simplified communication with customers and investors.

Research and development activities

In 2016, Raiffeisenbank Austria worked on improving its business processes and support, but did not participate in any research and development activities. It maintained its position among the leading financial institutions with regard to the application of modern technologies in their approach to the customers.

Information on repurchase of own shares

Raiffeisenbank Austria did not repurchase its own shares in 2016. In August 2016, Raiffeisenbank Austria acquired a 50-per cent share in Raiffeisen Leasing d.o.o., thus becoming a 100-per cent owner of that company.

Bank subsidiaries

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. Raiffeisen Group's developmental goal is to offer its customers a comprehensive financial service.

At the end of 2016, the local Raiffeisen Group consisted of the following legal entities, which are wholly owned by Raiffeisenbank Austria:

- Raiffeisen stambena štedionica d.d. (Building Society)
- Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d. (Pension Funds Management Company)
- Raiffeisen mirovinsko osiguravajuće društvo d.d. (Pension Insurance Company)
- Raiffeisen Invest d.o.o.
- Raiffeisen Factoring d.o.o
- Raiffeisen Leasing d.o.o.
- Raiffeisen Consulting d.o.o.

At the end of 2016, Group assets totalled HRK 35,364 million, having increased 1 per cent rise on an annual basis. Within the asset structure, customer loans declined by HRK 1,122 million. At the same time, liquid assets increased by HRK 1,572 million.

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Leasing assets declined by 1 per cent to HRK 1,481 million, with factoring assets declining by 11 per cent to HRK 1,484 million at the end of the year. These movements in assets reflect market fluctuations. In the circumstances of accelerated economic recovery and growth of investment in the second quarter, the demand for long-term financing of equipment, vehicles and real estate began to increase. On the other hand, owing to the high financial system liquidity, the collection within the corporate sector improved. Consequently, the demand for factoring services decreased. Raiffeisen Factoring made operating income of HRK 75 million – a decline 19 per cent over the previous year, while the operating income of Raiffeisen Leasing decreased by 4 per cent to HRK 170 million.

The assets under the management of the Raiffeisen pensions fund management company increased. At the close of 2016, assets under management in the three mandatory pension funds amounted to HRK 25,768 million, with an additional HRK 1,197 million in one open-end and six closed-end voluntary pension funds. Of the assets managed by the pension company, 96 per cent are the assets of our mandatory pension funds. The membership of Raiffeisen pension funds at the end of the year numbered 542,000 members of mandatory and 66,000 in voluntary pension funds. The annual 14 per cent growth of assets under management was based on paying-in of contributions by fund members, and the return earned by those funds.

Investment fund assets grew to HRK 1,672 million, or at a rate of 15 per cent. The investment fund structure has long been dominated by money market funds. But historically-low interest rates on the money market in 2016 reduced the attractiveness of investing in those funds. Due to low return on liquid instruments, the interest for investing in bonds, or long-term debt securities, increased. The offer of saving and investment products represents a reaction to the customers' eagerness to invest over a longer horizon, while maintaining the security of investment. Increased market returns boosted the attractiveness of investing and enabled growth of investment funds after a long period of stagnation.

Building societies are credit institutions specializing in the for offering special purpose savings and loan 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 for 2013 were calculated at 10 per cent of the paid-in amount of contributions in that year, in 2014 they were temporarily cancelled, only to be reduced to 4.9 in 2015 and 4.1 per cent in 2016. Alternative fixed-interest housing loans offered by the banks reduced the attractiveness of loans from building societies. The result was a decline in Raiffeisen Building Society assets by 6 per cent.

Raiffeisen Group financial highlights for the period from 2012 to 2016

Group **HRK million**	**2016**	**2015**	**2014**	**2013**	**2012**
From Balance Sheet as at 31 December					
Total assets	35,364	35,058	35,887	36,152	38,468
Shareholders' equity	4,890	4,326	5,052	5,467	5,531
Customer accounts	24,144	23,640	23,527	21,672	22,840
Customer loans	18,504	19,626	21,780	23,812	24,513
From Income Statement for the year ended 31 December					
Operating income	2,062	1,990	2,158	2,106	2,073
Operating expenses	1,877	1,231	1,286	1,230	1,242
Profit before tax	695	(182)	465	384	424
Net profit for the year	535	(150)	364	295	339
Ratios	%	%	%	%	%
Return on average shareholders' funds	12.17	(3.35)	6.94	5.85	6.18
Return on average assets	1.52	(0.42)	1.01	0.79	0.85
Capital adequacy ratio (in accordance with the Croatian National Bank methodology)	20.19	19.30	18.87	17.66	17.11
	HRK	**HRK**	**HRK**	**HRK**	**HRK**
Earnings per share	147	(43)	100	85	93

Within the local Group's sources of funding, borrowings and household deposits declined. The main part of its secondary sources of funding constitutes borrowings from related financial institutions. By the end of the year, borrowings from banks totalled HRK 3,992 million, and deposits from banks accounted for a further HRK 441 million. The share of corporate and household deposits in the Group's total liabilities stood at 79 per cent. Corporate and household deposits totalled HRK 24,144 million, and household deposits amount for 47 per cent of total liabilities. In 2016, household deposits declined by HRK 593 million, while corporate deposits rose by HRK 1,097 million over the previous year.

At the close of 2016, the local Group's capital was HRK 4,890 million. The increase in equity by HRK 564 million is the result of profit made, so the capital adequacy ratio increased to 20 per cent.

The Group ended 2016 with a profit after tax of HRK 535 million. Within the Group, Raiffeisen Factoring and Raiffeisen Mandatory and Voluntary Pension Fund Management Company made significant profits. Solid business results were made by Raiffeisen Leasing, Raiffeisen Building Society and Raiffeisen Pension Insurance Company, with negligible profit of Raiffeisen Invest and Raiffesen Consulting.

The Group's net interest income amounted to HRK 988 million, representing a decline of 4 per cent from the previous year. The positive impact on net interest income at the Group level came from the faster fall of deposit than loan interest rates, while the negative impact resulted from a decrease in the total loan volume. Net fees and commissions income totalled HRK 437 million – a decrease of 5 per cent over the previous year. Fee income was the main source of income of Group members managing pension and investment fund assets. 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. Mandatory pension fund management is the biggest fee income earner in the non-banking part of the Group. However, the amount of the management fee is set by the regulator. In 2016, the management fee stood at 0.419 per cent, compared to 0.45 per cent in the previous year. Thus, the positive contribution of the increased basis was neutralized by the lower fee calculation rate. Other non-interest income was HRK 637 million, or 29 per cent higher than in the previous reporting period.

Trading profit came in at HRK 315 million, having grown on the back of an increase in valuations of financial assets valued at market prices and the sale of assets. Significant contributions to other income were made by HRK 156 million from the operating leasing business, and by gross premium income from pension insurance contracts amounting to HRK 122 million.

Total local Raiffeisen Group's income was HRK 2,062 million, or HRK 72 million higher than the previous year. The Group's operating expenses were HRK 1,877 million, of which HRK 119 million is related to administrative expenses of pension insurance technical reserves, and HRK 655 million to loan conversion costs. Excluding the conversion costs, operating expenses declined by 1 per cent over the previous year. Operating expenses (without conversion costs) represented 59 per cent of the Group's total income.

The economic recovery enabled a decrease in customer arrears. In the period of protracted economic recession, the Group strengthened its debt collection activities and developed debt management and loan restructuring processes. 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. The operating conditions of financial institutions improved in 2016, so the losses from impairment charges to loans and other balance sheet assets amounted to HRK 107 million – HRK 212 million less than in the previous year.

The Group recorded a positive operating result of HRK 535 million. Compared to a HRK 150 million loss for the previous year, the overall improvement in the results amounts to HRK 685 million.

Financial instruments and related risks

Raiffeisenbank Austria and the local Raiffeisen Group invest assets into financial instruments, thus exposing themselves to risks. Risk management is the responsibility of the Bank's Management Board, while its operational implementation is the task of the organizational unit in charge of risk management and risk control. As at 31 December 2016, Raiffeisenbank Austria's assets were invested in different financial instruments, with customer loans and debt securities having a major share.

The most significant types of financial risks to which Raiffeisenbank Austria and the local Raiffeisen Group are exposed are credit risk, liquidity risk and market risk. Market risk includes exchange rate risk, interest rate risk and equities price risk.

At the Group level, there is a comprehensive risk management system of policy and procedure implementation, setting of limits for risk levels that are acceptable to the Group. The limits are set according to the amount of regulatory capital and are applied to all risk types. The Group has also developed methods and models of operational risk management.

Credit risk

Credit risk is the risk that a counterparty in a transaction made by the Group may cease to pay its liabilities or contingent liabilities. On the reporting date, the total credit risk exposure of Raiffeisenbank Austria to all customer sectors was HRK 29,359 million in assets and HRK 7,979 million in off-balance items. At the Group level, the exposure to credit risk was HRK 32,609 million in assets and HRK 8,106 million in off-balance items.

Positive trends achieved in the economy were reflected in the decline in non-performing loans. At the end of 2016, Raiffeisenbank Austria's total non-performing loans accounted for HRK 3,249 million out of the HRK 40,177 million in total loans. Loan loss provisions of HRK 2,488 million cover 77 per cent of non-performing loans. At the Group level, total non-performing loans stood at HRK 3,364 million, out of HRK 43,672 million of total loans. Loan loss provisions of HRK 2,583 million cover 77 per cent of non-performing loans.

Liquidity risk

Maturity transformation is a function conventionally performed by banks in the financial market. It results in continued reporting discrepancies between the inflows and outflows recorded by banks achieve in specific time periods (liquidity gap). Liquidity discrepancies (gaps) create exposure to liquidity risk. They occur in the form of a risk that Raiffeisenbank Austria will not be able to finance (refinance) its positions under acceptable conditions at at appropriate maturities, or as a risk that it will not be able to effectively cash in on its assets within the appropriate period of time.

Raiffeisenbank Austria and the local Raiffeisen Group harmonize their business activities with the legal provisions that regulate liquidity risk, as well as Group and and internal documents for the liquidity reserve maintenance. At the end of 2016, the liquidity risk exposure of Bank and Group assets was insignificant.

Market risk

Market risk is the risk of a negative impact of changes in market parameters, such as interest rates or foreign currency exchange rates, on the Group's income or on the value of its positions in financial instruments. The assessment of exposure to market risk is based on changes in the foreign currency exchange rates, interest rates, credit spreads, equities and commodities prices, as well as other market parameters.

Interest rate risk

Financial assets of Raiffeisenbank Austria and the local Raiffeisen Group are mainly interest-bearing, as is the case with most financial liabilities. Assets and liabilities mature or their interest rates change in different periods and in different amounts. To a certain extent, Bank and Group profit is vulnerable to the interest rate developments. The profit is also affected by the currency structure of assets, liabilities, and capital and reserves. Raiffeisenbank Austria and the Group hold a significant share of interest-bearing assets and liabilities in foreign currencies.

Exchange rate risk

A portion of the assets of Raiffeisenbank Austria and the Raiffeisen Group is denominated in foreign currencies, predominantly in euros. The exposure to the risk of exchange rate fluctuations characterizes the risk of losses incurred in open foreign currency positions. To protect themselves from the currency risk, Raiffeisenbank Austria and the Group use derivative financial instruments.

The exposure to the risk of exchange rate volatility stems from the transactions involving the loans denominated in foreign currencies, deposits denominated in foreign currencies, and investment and market activities. That exposure is monitored on a daily basis, in line with the internal limits set at the level of individual currency and in the total amount of maximum open foreign currency position allowed. The exposure of Raiffeisenbank Austria and the Raiffeisen Group to exchange rate risk on the reporting date was insignificant.

Equities price risk

Equities price risk is the risk of equities price fluctuations, which will affect the fair value of equities investments and other instruments, whose value is derived from equities investments. The primary exposure to price risk stems from the equities that are stated at fair value in the income statement. The exposure of Raiffeisenbank Austria and the Raiffeisen Group to equities price risk on the reporting date was insignificant.

Signed on behalf of the Management Board Raiffeisenbank Austria d.d.

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

RBI at a glance

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Raiffeisen Bank International at a glance

Raiffeisen Bank International AG regards Central and Eastern Europe (including Austria) as its home market. For over 30 years, RBI has been operating in 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 2016, around 50,000 RBI employees served some 16.6 million customers in around 2,500 business outlets. In Austria, RBI is one of the top corporate and investment banks. It primarily serves Austrian customers, but also international customers and large multinational corporate customers operating in CEE.

Raiffeisen Zentralbank Österreich (RZB AG) was established in 1927 as "Girozentrale der österreichischen Genossenschaften" and at that time served as the liquidity balancing center for Austria's agricultural cooperatives, as envisioned by social reformer Friedrich Wilhelm Raiffeisen.

RZB AG had one of the largest banking networks in CEE through its subsidiary, Raiffeisen Bank International (RBI AG), which has been listed on the stock exchange since 2005. At the end of 2016, RZB AG held approximately 60.7 per cent of RBI's stock, with the remaining shares in free float. RZB AG was primarily owned by the eight Raiffeisen regional banks and served as their central institution pursuant to the Austrian Banking Act (BWG). Following the merger between RZB AG and RBI AG, effective retroactively as of 30 June 2016, RBI AG will assume the role of RBG's central institution by way of universal succession.

Financial Statements

Responsibilities of the Management and Supervisory Board for the preparation and approval of the annual report

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 39 to 152 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 153 to 164, were authorised by the Management Board on 31 March 2017 for issue to the Supervisory Board and are signed below to signify this.

The Management Board is also responsible for the preparation and content management report as required by the Croatian Accounting Law, and for other information. Further information is set out on pages 10 to 13 and the management report presented on pages 18 to 27 were approved by the Management Board on 31 March 2017 and are signed below.

Signed on behalf of the Raiffeisenbank Austria d.d.

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 Audit of the Separate and Consolidated Financial Statements

Opinion

We have audited the separate financial statements of Raiffeisenbank Austria d.d. ("the Bank") and consolidated financial statements of Raiffeisenbank Austria Group ("the Group"), which comprise, respectively, the separate and consolidated statement of financial position as at 31 December 2016, the separate and consolidated income statement, separate and consolidated statement of comprehensive income, separate and consolidated statement of cash flows and separate and consolidated statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at 31 December 2016 and of their financial performance and their cash flows for the year then ended in accordance with statutory accounting requirements for banks in Croatia.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Separate and Consolidated Financial Statements section of our report.
We are independent of the Bank and the Group in accordance with the ethical requirements that are applicable for our audit of separate and consolidated financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management Board is responsible for the other information. The other information comprises Management report and Macroeconomic environment included in the Annual report but does not include the separate and consolidated financial statements and our auditors' report thereon.
Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except as explicitly stated in this report.
In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this respect.
With respect to the Management report, we have also performed the procedures required by the Article 20 of the Croatian Accounting Act. These procedures include considering whether the Management report includes the disclosures required by Articles 21 and 24 of the Croatian Accounting Act.

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

Report on the Audit of the Separate and Consolidated Financial Statements (continued)

Based solely on the work required to be undertaken in the course of the audit of the financial statements and the procedures above, in our opinion:

- the information given in the Management report for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements; and
- the Management report has been prepared, in all material respects, in accordance with the applicable legal requirements of the Croatian Accounting Act.
- in addition, in light of the knowledge and understanding of the Bank and the Group and their environment in which they operate, obtained in the course of our audit, we are required to report if we have identified material misstatements in the Management report and other information that we obtained prior to the date of this auditors' report. We have nothing to report in this respect.

Responsibilities of Management Board and Those Charged with Governance for the Separate and Consolidated Financial Statements

Management Board is responsible for the preparation of the separate and consolidated financial statements that give a true and fair view 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 the separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Separate and Consolidated Financial Statements

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

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

Report on the Audit of the Separate and Consolidated Financial Statements (continued)
Auditors' Responsibilities for the Audit of the Separate and Consolidated Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Report on 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 153 to 159 ("the Schedules"), which comprise an alternative presentation of the consolidated statement of financial position as of 31 December 2016, 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 160 to 164. 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 39 to 152 on which we have expressed an opinion as set out above.

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

Zagreb, 31 March 2017

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 2016	Group 2015
Assets			
Cash and current accounts with banks	6	3,721	2,637
Obligatory reserve with the Croatian National Bank	7	1,675	1,977
Financial assets at fair value through profit or loss	8	2,515	2,291
Placements with and loans to other banks	9	1,332	955
Financial assets available for sale	10	5,217	5,028
Loans and advances to customers	11	18,504	19,626
Financial investments held to maturity	12	293	283
Property, plant and equipment	14	1,496	1,482
Intangible assets	15	240	195
Deferred tax asset	16	86	206
Current tax asset		–	4
Other assets	17	285	374
Total assets		**35,364**	**35,058**

The accounting policies and other notes on pages 51 to 152 form an integral part of these financial statements.

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

HRK millions	Notes	Group 2016	Group 2015
Liabilities			
Financial liabilities at fair value through profit or loss	18	97	111
Deposits from banks	19	441	246
Deposits from companies and other similar entities	20	9,891	8,794
Deposits from individuals	21	14,253	14,846
Borrowings	22	3,992	4,251
Provisions for liabilities and charges	23	187	804
Other liabilities	24	776	766
Subordinated liabilities	25	837	846
Total liabilities		**30,474**	**30,664**
Equity			
Share capital	35	3,621	3,621
Share premium		12	12
Capital reserve		1	1
Legal reserve		181	180
Fair value reserve		58	82
Retained earnings		1,017	430
Total equity attributable to owners of the parent		**4,890**	**4,326**
Non-controlling interest	38	–	68
Total equity		**4,890**	**4,394**
Total liabilities and equity		**35,364**	**35,058**

The accounting policies and other notes on pages 51 to 152 form an integral part of these financial statements.

Consolidated statement of comprehensive income for the year ended 31 December

HRK millions	Notes	Group 2016	Group 2015
Interest income	26	1,305	1,452
Interest expense	27	(317)	(419)
Net interest income		**988**	**1,033**
Fee and commission income	28	694	704
Fee and commission expense	29	(257)	(242)
Net fee and commission income		**437**	**462**
Net trading gains, gains from financial assets available for sale and foreign exchange differences from translation of monetary assets and liabilities	30	315	152
Other operating income	31	322	343
Trading and other income		**637**	**495**
Operating income		**2,062**	**1,990**
Operating expenses	32	(1,877)	(1,231)
Impairment losses	33	(107)	(319)
Provisions for liabilities and charges	23	617	(622)
Profit/(loss) before tax		**695**	**(182)**
Income tax expense	34	(160)	32
Profit/(loss) for the year		**535**	**(150)**
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		(24)	65
Other comprehensive (loss)/income for the year, net of tax		**(24)**	**65**
Total comprehensive profit/(loss) for the year		**511**	**(85)**
Attributable to:			
– Equity holders of the parent		535	(156)
– Non-controlling interest	38	–	6
Earnings/(loss) per share attributable to the equity holders of the parent	39	**147**	**(43)**

The accounting policies and other notes on pages 51 to 152 form an integral part of these financial statements.

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

HRK millions	Share capital	Share premium	Capital reserves	Legal reserve	Fair value reserve	Retained earnings	Total	Non-controlling interest	Total
At 1 January 2015	**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**
Other comprehensive income	–	–	–	–	(24)	–	(24)	–	(24)
Increase in legal reserve	–	–	–	1	–	(1)	–	–	–
Profit for the year	–	–	–	–	–	535	535	–	535
Acquisition of the remaining equity stake in Raiffeisen Leasing d.o.o.	–	–	–	–	–	53	53	(68)	(15)
At 31 December 2016	**3,621**	**12**	**1**	**181**	**58**	**1,017**	**4,890**	**–**	**4,890**

The accounting policies and other notes on pages 51 to 152 form an integral part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December

HRK millions	Notes	Group 2016	Group 2015
Cash flows from operating activities			
Profit/(loss) before tax		695	(182)
Adjustments for:			
– Amortization and depreciation	32	191	195
– Foreign exchange differences	30	9	(110)
– Realised gains on financial assets available for sale	30	(99)	(9)
– Impairment losses (excluding cash and cash equivalents) and provisions for liabilities and charges	23,33	(522)	931
– Net interest income	26,27	(988)	(1,033)
Changes in operating assets and liabilities			
Net (increase)/decrease in financial assets at fair value through profit or loss		(213)	653
Net (increase)/decrease in placements with banks, with original maturity more than three months		(18)	368
Net decrease/(increase) in obligatory reserve with the Croatian National Bank		308	(18)
Net decrease in loans and advances to customers		1,110	2,275
Net decrease in other assets		120	70
Net (increase)/decrease of financial investments held to maturity		(11)	66
Net decrease in financial liabilities at fair value through profit or loss		(40)	(138)
Net increase/(decrease) in deposits from banks		191	(50)
Net increase in deposits from companies and other similar entities		1,105	288
Net decrease in deposits from individuals		(494)	(329)
Net (decrease)/increase in other liabilities		(4)	66
Decrease in non-controlling interest		(68)	–
Interest received (excluding financial assets available for sale and financial investments held to maturity)		1,031	1,125
Interest paid		(287)	(394)
Net cash from operating activities before tax		**2,016**	**3,774**
Income tax paid		(33)	(48)
Net cash from operating activities		**1,983**	**3,726**

The accounting policies and other notes on pages 51 to 152 form an integral part of these financial statements.

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

HRK millions	Notes	Group 2016	Group 2015
Cash flows from investing activities			
Interest received from financial assets available for sale and financial investments held to maturity		152	116
Net purchase of financial assets available for sale		(235)	(1,633)
Purchase of property, plant and equipment and intangible assets		(446)	(286)
Proceeds from disposal of property, plant and equipment and intangible assets		191	111
Net cash from investing activities		**(338)**	**(1,692)**
Cash flows from financing activities			
Receipts from borrowings	22	2,085	2,384
Repayment of borrowings	22	(2,310)	(3,483)
(Repayment of)/receipts from subordinated liabilities		(1)	383
Dividend paid		–	(638)
Net cash from financing activities		**(226)**	**(1,354)**
Effects of foreign exchange differences on cash and cash equivalents		27	12
Net increase in cash and cash equivalents		**1,446**	**692**
Cash and cash equivalents at the beginning of the year		**3,522**	**2,830**
Cash and cash equivalents at the end of the year	40	**4,968**	**3,522**

The accounting policies and other notes on pages 51 to 152 form an integral part of these financial statements.

Separate statement of financial position as at 31 December

HRK millions	Notes	Bank 2016	Bank 2015
Assets			
Cash and current accounts with banks	6	3,717	2,633
Obligatory reserve with the Croatian National Bank	7	1,675	1,977
Financial assets at fair value through profit or loss	8	2,151	1,954
Placements with and loans to other banks	9	1,384	991
Financial assets available for sale	10	4,921	4,744
Loans and advances to customers	11	16,213	17,387
Investments in subsidiaries	13	408	366
Property, plant and equipment	14	478	458
Intangible assets	15	206	188
Deferred tax asset	16	83	201
Current tax asset		1	9
Other assets	17	179	273
Total assets		**31,416**	**31,181**

The accounting policies and other notes on pages 51 to 152 form an integral part of these financial statements.

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

HRK millions	Notes	Bank 2016	Bank 2015
Liabilities			
Financial liabilities at fair value through profit or loss	18	97	111
Deposits from banks	19	520	336
Deposits from companies and other similar entities	20	10,090	9,273
Deposits from individuals	21	13,195	13,691
Borrowings	22	1,759	1,802
Provisions for liabilities and charges	23	176	793
Other liabilities	24	292	315
Subordinated liabilities	25	837	846
Total liabilities		**26,966**	**27,167**
Equity			
Share capital	35	3,621	3,621
Share premium		12	12
Capital reserve		1	1
Legal reserve		173	173
Fair value reserve		36	60
Retained earnings		607	147
Total equity		**4,450**	**4,014**
Total liabilities and equity		**31,416**	**31,181**

The accounting policies and other notes on pages 51 to 152 form an integral part of these financial statements.

Separate statement of comprehensive income for the year ended 31 December

HRK millions	Notes	Bank 2016	Bank 2015
Interest income	26	1,148	1,271
Interest expense	27	(251)	(342)
Net interest income		**897**	**929**
Fee and commission income	28	543	554
Fee and commission expense	29	(246)	(233)
Net fee and commission income		**297**	**321**
Net trading gains, gains from financial assets available for sale and foreign exchange differences from translation of monetary assets and liabilities	30	270	127
Other operating income	31	93	71
Trading and other income		**363**	**198**
Operating income		**1,557**	**1,448**
Operating expenses	32	(1,481)	(822)
Impairment losses	33	(108)	(314)
Provisions for liabilities and charges	23	617	(623)
Profit/(loss) before tax		**585**	**(311)**
Income tax expense	34	(125)	70
Profit/(loss) for the year		**460**	**(241)**
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		(24)	63
Other comprehensive loss/(income) for the year, net of tax		**(24)**	**63**
Total comprehensive profit/(loss) for the year		**436**	**(178)**
Earnings/(loss) per share attributable to the equity holders of the parent	39	**127**	**(66)**

The accounting policies and other notes on pages 51 to 152 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 2015	**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**
Other comprehensive income	–	–	–	–	(24)	–	(24)
Profit for the year	–	–	–	–	–	460	460
At 31 December 2016	**3,621**	**12**	**1**	**173**	**36**	**607**	**4,450**

The accounting policies and other notes on pages 51 to 152 form an integral part of these financial statements.

Separate statement of cash flows for the year ended 31 December

HRK millions	Notes	Bank 2016	Bank 2015
Cash flows from operating activities			
Profit/(loss) before tax		585	(311)
Adjustments for:			
– Amortization and depreciation	32	68	72
– Foreign exchange differences	30	37	(75)
– Impairment losses (excluding cash and cash equivalents) and provisions for liabilities and charges	23,33	(521)	927
– Realised gains from financial assets available for sale	30	(94)	(9)
– Net interest income	26,27	(897)	(929)
– Dividend income from subsidiaries	31	(72)	(55)
Changes in operating assets and liabilities			
Net (increase)/decrease in financial assets at fair value through profit or loss		(180)	706
Net (increase)/decrease in placements with banks, with original maturity more than three months		(20)	371
Net decrease/ (increase) in obligatory reserve with the Croatian National Bank		308	(18)
Net decrease in loans from and advances to customers		1,080	1,754
Net decrease/(increase) in other assets		90	(19)
Net decrease in financial liabilities at fair value through profit or loss		(40)	(137)
Net increase in deposits from banks		181	39
Net increase in deposits from companies and other similar entities		822	298
Net decrease in deposits from individuals		(411)	(196)
Net (decrease)/increase in other liabilities		(25)	59
Interests received (excluding financial assets available for sale)		981	975
Interests paid		(239)	(330)
Net cash from operating activities before tax		**1,653**	**3,122**
Income tax paid		–	(11)
Net cash from operating activities		**1,653**	**3,111**

The accounting policies and other notes on pages 51 to 152 form an integral part of these financial statements.

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

HRK millions	Notes	Bank 2016	Bank 2015
Cash flows from investing activities			
Interest received from financial assets available for sale		121	83
Additional investment in subsidiaries		(42)	–
Net outflow from disposal of available-for-sale securities		(233)	(1,559)
Dividend received	31	72	55
Purchase of property, plant and equipment and intangible assets		(106)	(104)
Net cash from investing activities		**(188)**	**(1,525)**
Cash flows from financing activities			
Receipts from borrowings	22	777	653
Repayment of borrowings	22	(809)	(1,303)
(Repayment of)/receipts from subordinated liabilities		(1)	382
Dividend paid		–	(635)
Net cash from financing activities		**(33)**	**(903)**
Effects of foreign exchange differences on cash and cash equivalents		26	12
Net increase in cash and cash equivalents		**1,458**	**695**
Cash and cash equivalents at the beginning of the year		**3,506**	**2,811**
Cash and cash equivalents at the end of the year	40	**4,964**	**3,506**

The accounting policies and other notes on pages 51 to 152 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 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 2017 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 2016.

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 293 million (2015: HRK 310 million) (Bank 2016: HRK 271 million and 2015: HRK 285 million), and recognised reversal of provisions in the amount of HRK 17 million (2015: HRK 28 million expense) (Bank 2016: HRK 14 million reversal of provisions; 2015: HRK 31 million as an expense). Group's portfolio based off-balance impairment losses as at 31 December 2016 amounted to HRK 80 million (2015: HRK 75 million) (Bank 2016: HRK 80 million and 2015: HRK 75 million) and the Group recognised expense in the amount of HRK 5 million (2015: reversal of provisions HRK 1 million) (Bank 2016: expense HRK 5 million and 2015: reversal of provisions HRK 1 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 in 2015 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. During 2016, the Bank released the provisions in the amount of HRK 611 million (note 23) upon carrying out the conversion.

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)

c) Basis of consolidation (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 2016 was HRK 7.557787 to EUR 1 (2015: HRK 7.635047); HRK 7.168536 to USD 1 (2015: HRK 6.991801) and HRK 7.035735 to CHF 1 (2015: HRK 7.059683).

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) Global financial market situation and the impact on Croatia

The policy of the European Central Bank (ECB) considerably impacts the highly euroized financial markets outside the euro area, such as Croatia. In 2016 the ECB intensified the expansiveness of the monetary policy measures. In March the basic interest rate of the ECB went down from 0.05% to 0%, and the interest rate on deposits held by the euro-area banks with the ECB was pushed even deeper into the negative territory, from -0.3% to -0.4%. In the segment of unconventional monetary policy measures, the ECB increased the target amount of monthly bond purchase in the secondary financial market from 60 to 80 billion euro, widening the terms for purchase from public bonds to bonds of private issuers. At the end of the year the purchase options came to include short-term issues of debt securities of both public and private issuers with yield lower than the ECB deposit rate.

By the expansive monetary policy measures the ECB strives to stimulate price rise towards the target level of 2% annually, through increase in loan offer and decrease in interest rates. The expected outcome is an accelerated growth in economy and employment based on stronger consumption, and not on the implementation of the structural measures for increasing productivity and competitiveness that had not been implemented in the previous mid-term period so the desired economy growth did not occur. As a consequence of the ECB expansion policy, interest rates in the euro financial markets remained negative throughout the year, and yields on bonds of first-grade issuers from the euro area with 5-year maturity were also negative throughout the entire year. At mid-year also 10-year issues had negative yields.

The negative market interest rates in the euro area adversely impacted the banks' business activities. Total loans in the euro area were stagnant and the banks could hold the excess liquidity with the ECB at a negative yield of -0.4% or place it into first-grade bonds at even lower yields. Therefore, the banks overcame their aversion to risks and financed risk customers at lowered but still positive interest rates. On the other hand, the banks dropped their interest rates on deposits but avoided offering negative interest rates, so their interest margins narrowed. Therefore, the banks directed the excess liquidity in the euro area towards the markets outside the euro area. Consequently, the loan offer widened also for the customers in Croatia.

In 2016 the Croatian financial market was flooded by excess liquidity, so the banks cancelled their loans, primarily towards the financial institutions connected through ownership. Consequently, the share of primary sources in the banks' liabilities rose. In the environment of excess liquidity and banks without foreign debts the interest rate on customer deposits with banks started to form irrespectively of the price of foreign financing for the banks. Therefore, the banks could lower the interest rate on FCY deposits (in euro) below the price they would pay for acquiring FCY deposits from abroad. The amount of interest rates that the banks in Croatia contract for deposits in the euro was halved during 2016 – for long-term PI time deposits from 2.0% in December 2015 to 0.8% in December 2016, and for long-term corporate time deposits from 1.3% to 0.5%.

The banks' lowering of EUR deposit interest rates demotivates customers to make term deposits, and thus also to convert them from kuna into euro deposits. Consequently, a vista HRK financing sources in banks increased, which allowed for growth in kuna placements. Structural operations of the CNB additionally increased kuna liquidity in banks, so for the banks the price of financing in the kuna closed in on the price of financing in the euro. Therefore, the offer of loans in the kuna became competitive to the offer of loans in the euro, resulting in an increased demand for kuna loans.

The rates of real economic growth stabilized in the euro area on the levels between 1.5% and 2.0%, and price rise remained low because of the retained depreciation pressures on the supply side for the most part of the year. Economic stability in the euro area positively reflected on the demand for products and services from Croatia. Because of an increase in the GDP, Croatia saw a rise in budget revenues, and spending was frozen due to the political crisis that ensued after the vote of no confidence was passed to the Government resulted in repeated parliamentary elections after but a year in the mandate. Budget balancing provided for the stabilization of public finance so with the unquestionable stability of the financial system, the prospects of the country's credit rating stabilized on the subinvestment level.

2. Basis of preparation (continued)

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

IFRS 9 was published in July 2014 and replaces the existing guidance of IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidelines on classification and subsequent measurement of financial instruments, defines a new model of expected credit losses for the purposes of calculating impairment of financial assets and brings new requirements for the running of hedge accounting. The guidelines for the recognition and derecognition of financial instruments are transferred from the IAS 39. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with earlier adoption permitted.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three main categories of classification of financial assets: measured at amortized cost, at fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL).

Classification is generally based on the business model of the financial assets and its contractual cash flows. The new Standard eliminates the existing categories of instruments defined by IAS 39; held-to-maturity, loans and receivables and available-for-sale.

As part of IFRS 9, derivatives embedded financial asset are not separated and classification is determined for the hybrid instrument as a whole.

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities. However, although according to IAS 39, all changes in the fair value of liabilities held at fair value are recognized in the income statement, in accordance with the IFRS 9 changes in fair value are shown as follows:

- the amount of change in fair value attributable to changes in credit risk of liability is shown in other comprehensive income; and
- the remaining amount of change in fair value is recognized in the income statement.

The Bank and the Group are performing a comprehensive analysis of the potential impact on the financial statements as a result of the above change.

Expected credit losses

IFRS 9 replaces the incurred-loss model from IAS 39 with the expected-credit-loss model. New impairment model applies also to certain credit obligations and financial guarantee contracts, but not on equity investments. According to IFRS 9, credit losses are recognised earlier than according to IAS 39.

The Bank and the Group are performing a comprehensive analysis of the potential impact on the financial statements as a result of the above change.

3. Significant accounting policies

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

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 method 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 initially designated at fair value through profit or loss.

Gains less losses arising from investment securities comprise of 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 reduces 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.

3. Significant accounting policies (continued)

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.

3. Significant accounting policies (continued)

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 other comprehensive income 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 other comprehensive income. 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.

3. Significant accounting policies (continued)

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;
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 of the borrower;
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.

Provisions for impairment losses on a collective basis are calculated based on percentage prescribed by the CNB for the Raiffeisenbank Austria d.d. Zagreb and Raiffeisen Building Society d.d. and based on RBI methodology for other subsidiaries.

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 a loan is uncollectible, it is written off through the related provisions for impairment losses. Loans are written off after all the necessary procedures and determining the amount of loss. Additional collection of the previous written off amounts are recognised as reversal of the impairment loss 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.

3. Significant accounting policies (continued)

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.

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.

3. Significant accounting policies (continued)

Specific financial instruments (continued)

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.

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

3. Significant accounting policies (continued)

Income tax (continued)

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.

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.

	2016	2015
Buildings	50 years	50 years
Equipment	4 – 10 years	4 – 10 years
Office furniture	4 years	4 years
Assets under operating leases (depending on the duration of the contract, depreciated to the residual value)	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.

3. Significant accounting policies (continued)

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 straight-line basis over their estimated useful economic lives as follows:

	2016	2015
Leasehold improvements	1 – 20 years	1 – 20 years
Software	5 – 8 years	5 – 8 years

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 and goodwill, 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. Once recognised impairment loss of goodwill is not subsequently reversed.

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.

3. Significant accounting policies (continued)

Leases-Group as lessor (continued)

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.

Employee benefits

a) Defined pension contributions

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

b) Long-term service benefits

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

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 2016	Group 2015	Bank 2016	Bank 2015
Summary of impairment allowance for customers					
Impairment on-balance-sheet exposure	6,7,9,11,12,17	2,853	2,964	2,737	2,846
Provision for off-balance-sheet exposure	23	103	118	103	118
		2,956	3,082	2,840	2,964

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.

4. Significant accounting estimates and judgements (continued)

Financial assets carried at amortised cost (continued)

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.

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

			2016			2015
	Corporate	Retail	Total	Corporate	Retail	Total
The Group						
Gross carrying amount (in HRK millions)	2,265	1,099	3,364	2,621	1,264	3,885
Impairment rate (in %)	78	74	77	74	60	69
The Bank						
Gross carrying amount (in HRK millions)	2,168	1,081	3,249	2,522	1,245	3,767
Impairment rate (in %)	78	74	77	73	61	69

Each additional increase of one percentage point in the impairment rate on the gross carrying amount of specifically identified impaired loans at 31 December 2016 would lead to the recognition of an additional impairment loss of HRK 32.49 million (2015: HRK 37.67 million) at the Bank level and an additional impairment loss of HRK 33.64 million (2015: HRK 38.9 million) at the Group level.

The amount of impairment losses at 31 December 2016 estimated on a portfolio basis amounted to HRK 352 million (2015: HRK 359 million) of the relevant on-and off-balance-sheet exposure. The total of these portfolio based impairment losses amounted to 1.24% (2015: 1.3%) of Loans from and advances to customers and to 1% (2015: 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 2016, the carrying amount of treasury bills classified as financial assets at fair value through profit or loss was HRK 140 million (2015: HRK 127 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.

4. Significant accounting estimates and judgements (continued)

c) Provisions for court cases (continued)

According to the CNB decision a credit institution shall allocate litigation to risk groups A (no risk of loss established or a cash flow outflow or less than 10% of the total estimated amount), B (a risk of loss established or a cash outflow between 10% and 70% of total amount estimated) or C (high risk of loss established or a cash outflow of more than 70% of the total amount estimated). In determining the current value of future cash flows, taking into account all factors that have influenced or will influence the time 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.

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 66 million (2015: HRK 59 million) or HRK 57 million (2015: HRK 50 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 1H 2016 the conversion of consumer loans from CHF into EUR was executed pursuant to the provisions of the Act on change and amendments to the Consumer Financing Act dated September 2015.

In the period from 2001 until 2014 the Bank approved loans to consumers and entrepreneurs pegged to the Swiss Franc. At the beginning of this loan approval practice, customers benefited from lower interest rates for loans in the Franc. However, from 2007 until 2009 interest rates for loans in the Franc rose because of the increase in the financing price for the banks with respect to the sources in the Franc. From the year 2009 repayment annuities for the loans in the Franc were on the rise also because of the exchange rate trends, or the strengthening of the Franc against the kuna.

On 22 September 2015 the new Act on change and amendments to the Consumer Financing Act was passed (hereinafter: Amendments to the Act) regulating, as a permanent measure, the conversion of loans from CHF into EUR. The Amendments to the Act came into force as on 30 September 2015. In compliance with the said Amendments to the Act, the conversion brought the position of a borrower of a loan in the Franc to the equivalent position in which they would be had they drawn a loan in the euro. Identically the position of a borrower of a loan in the kuna with the currency clause in the Franc was made equivalent to the position in which they would be had they drawn a loan in the kuna with the currency clause in the euro.

In 2015 the Bank provisioned HRK 617 million for estimated losses from the conversion. The conversion process was initiated at the end of 2015 and completed in 2016. On 18 January 2016 the Bank repeated the calculation of the loan conversion for the customers. In the repeated conversion calculation the more favorable interest rates were applied for the customers routing their regular income to an account with the Bank (primary customers), as well as interest rate adjustments that were executed for the primary customers during the loan repayment period, or from the loan disbursement date until 30 September 2015.

After completing the conversion the amount of the not-yet-due debt from the converted loans dropped. Thus, the principal for calculating provisions lowered for the converted loans classified into partly recoverable and unrecoverable categories, and therefore, the amount of the provisions formed on the basis of these loans dropped.
Later on in the year 2016 the Bank decided to include into the conversion also the previously cancelled loans, which were converted into the kuna at cancellation. The effects of converting these loans were declared in the profit and loss account for the year 2016.

4. Significant accounting estimates and judgements (continued)

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. Management believes that the recognised deferred tax assets are completely recoverable.

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 2016 that there are no debtors which should be consolidated, which is consistent with the conclusion reached in 2015.

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 are 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 of 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)

2016 Group HRK millions	Corporate	Retail	Treasury	Asset management	Shared services	Unallocated	Total
Net interest income	304	513	123	25	23	–	988
Net fee and commission income	164	117	2	151	3	–	437
Trading and other income	278	103	97	139	15	5	637
Operating income	**746**	**733**	**222**	**315**	**41**	**5**	**2,062**
Operating expenses	(456)	(1,121)	(43)	(220)	(35)	(2)	(1,877)
Impairment losses on loan and advances to customers and other assets	(123)	2	13	–	1	–	(107)
Provisions for liabilities and charges	11	609	(3)	–	–	–	617
Operating expenses	**(568)**	**(510)**	**(33)**	**(220)**	**(34)**	**(2)**	**(1,367)**
Profit/(loss) before tax	**178**	**223**	**189**	**95**	**7**	**3**	**695**
Income tax expense	–	–	–	–	–	(160)	(160)
Profit/(loss) for the year	**178**	**223**	**189**	**95**	**7**	**(157)**	**535**
Segment assets	8,820	9,309	13,107	601	1,181	–	33,018
Unallocated assets	–	–	–	–	–	2,346	2,346
Total assets	**8,820**	**9,309**	**13,107**	**601**	**1,181**	**2,346**	**35,364**
Segment liabilities	12,867	13,341	2,432	436	1,206	192	30,474
Equity	–	–	–	–	–	4,890	4,890
Total equity and liabilities	**12,867**	**13,341**	**2,432**	**436**	**1,206**	**5,082**	**35,364**

5. Segment reporting (continued)

2015 Group 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 loan 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)

Bank 2016 HRK millions	Corporate	Retail	Treasury	Unallocated	Total
Net interest income	261	513	123	–	897
Net fee and commission income	178	117	2	–	297
Trading and other income	86	103	169	5	363
Operating income	**525**	**733**	**294**	**5**	**1,557**
Operating expenses	(315)	(1,121)	(43)	(2)	(1,481)
Impairment losses on loan and advances to customers and other assets	(123)	2	13	–	(108)
Provisions for liabilities and charges	11	609	(3)	–	617
Operating expenses	**(427)**	**(510)**	**(33)**	**(2)**	**(972)**
Profit/(loss) before tax	**98**	**223**	**261**	**3**	**585**
Income tax expense	–	–	–	(125)	(125)
Profit/(loss) for the year	**98**	**223**	**261**	**(122)**	**460**
Segment assets	7,692	9,309	13,107	–	30,108
Unallocated assets	–	–	–	1,308	1,308
Total assets	**7,692**	**9,309**	**13,107**	**1,308**	**31,416**
Segment liabilities	11,000	13,341	2,432	193	26,966
Equity	–	–	–	4,450	4,450
Total equity and liabilities	**11,000**	**13,341**	**2,432**	**4,643**	**31,416**

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 from 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**

6. Cash and current accounts with banks

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Cash in hand	712	762	712	762
Items in the course of collection	1	1	1	1
Giro account with the Croatian National Bank	2,969	1,735	2,969	1,735
– with parent bank	4	24	3	20
– with other Raiffeisen Bank International AG ("the RBI") group banks	5	18	5	18
– with other banks	66	121	63	121
	3,757	2,661	3,753	2,657
Impairment allowance	(36)	(24)	(36)	(24)
	3,721	2,637	3,717	2,633

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

Unidentified losses

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
At 1 January	24	14	24	14
Net charge regonised in profit or loss (Note 33)	12	10	12	10
At 31 December	36	24	36	24

7. Obligatory reserve with the Croatian National Bank

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Obligatory reserve in domestic currency	1,695	1,730	1,695	1,730
Obligatory reserve in foreign currency	–	272	–	272
	1,695	**2,002**	**1,695**	**2,002**
Impairment allowance	(20)	(25)	(20)	(25)
	1,675	**1,977**	**1,675**	**1,977**

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

Unidentified losses				
At 1 January	**25**	**22**	**25**	**22**
Net (release)/charge recognised in profit or loss (Note 33)	(5)	3	(5)	3
At 31 December	**20**	**25**	**20**	**25**

The Croatian National Bank (CNB) determines the requirement for banks to calculate obligatory reserve which is required to be deposited with the CNB and maintained in the form of liquid assets. The obligatory reserve requirement as at 31 December 2016 represented 12% (2015:12%) of relevant HRK and foreign currency deposits and borrowings.

As at 31 December 2016 the required rate of HRK denominated part of the obligatory reserve to be deposited with the CNB amounted to 70% (2015:70%), while the remaining 30% (2015:30%) had to be maintained in the form of liquid receivables. 75% (2015:75%) of foreign currency obligatory reserve was required to be held in HRK, and this is added to the HRK portion of the obligatory reserve.

Bank are not required to hold the foreign currency obligatory reserve deposited with the CNB (2015: 60%). Banks was required to maintain 2% of their foreign currency reserve requirement, as the average daily balance of funds on their own foreign currency settlement accounts with the CNB.

8. Financial assets at fair value through profit or loss

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2016
Trading instruments				
Debt securities:				
– Domestic government bonds, listed	714	683	714	683
– Foreign government bonds, listed	779	638	779	638
– Treasury bills issued by the Ministry of Finance	74	61	74	61
– Bonds issued by banks, listed	315	326	315	326
	1,882	**1,708**	**1,882**	**1,708**
Equity instruments, listed	**5**	**8**	**5**	**8**
Positive fair value of OTC derivative instruments	108	69	116	79
Positive fair value of OTC spot transactions	1	1	1	1
	109	**70**	**117**	**80**
Accrued interest	21	12	21	12
Total trading assets	**2,017**	**1,798**	**2,025**	**1,808**
Financial assets designated at fair value through profit or loss				
Debt securities:				
– Domestic government bonds, listed	266	256	–	–
– Bonds issued by banks, listed	22	22	22	22
– Securities issued by companies, listed	127	140	103	123
– Treasury bills issued by the Ministry of Finance	66	66	–	–
	481	**484**	**125**	**145**
Equity investments	2	1	–	–
Investments in investment funds managed by related and third parties	9	1	–	–
Accrued interest	6	7	1	1
Total financial assets designated at fair value through profit or loss	**498**	**493**	**126**	**146**
Total	**2,515**	**2,291**	**2,151**	**1,954**

The amount of HRK 66 million (2015: HRK 66 million) treasury bills issued by the Ministry of Finance represent the guarantee deposit in accordance with the Law on Mandatory and Voluntary Pension Funds.

9. Placements with and loans to other banks

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Loans	235	130	286	182
Deposits	1,111	843	1,111	826
Deposits with the Croatian National Bank	8	–	8	–
	1,354	973	1,405	1,008
Impairment allowance	(22)	(18)	(21)	(17)
	1,332	955	1,384	991

Deposits with the Croatian National Bank are related to guarantee deposits linked to repurchase agreements (Note 42).

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

Group			2016			2015
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	5	13	18	5	17	22
Net charge/(release) recognised in profit or loss (Note 33)	–	4	4	–	(4)	(4)
At 31 December	5	17	22	5	13	18

Bank			2016			2015
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	5	12	17	5	16	21
Net charge/(release) recognised in profit or loss (Note 33)	–	4	4	–	(4)	(4)
At 31 December	5	16	21	5	12	17

10. Financial assets available for sale

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Debt securities:				
– Domestic government bonds, listed	1,491	985	1,198	705
– Bonds issued by banks, listed	1,040	908	1,040	908
– Foreign government bonds, listed	2,150	2,349	2,150	2,349
Treasury bills issued by the Ministry of Finance	463	682	463	682
Equity securities, not listed	21	60	21	60
Equity securities, listed	8	4	8	4
Accrued interest	44	40	41	36
	5,217	**5,028**	**4,921**	**4,744**

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 2016	Group 2015	Bank 2016	Bank 2015
Loans to companies and similar entities				
– denominated in domestic currency	3,506	3,400	3,333	3,380
– denominated in or linked to foreign currency	6,238	6,592	5,336	5,627
Loans to individuals				
– denominated in domestic currency	5,773	5,195	5,673	5,093
– denominated in or linked to foreign currency	5,010	6,546	4,435	5,959
Finance lease receivables, denominated in or linked to foreign currency	633	662	–	–
– accrued interest	137	154	119	138
– deferred income	(75)	(100)	(72)	(96)
	21,222	**22,449**	**18,824**	**20,101**
Impairment allowance	(2,718)	(2,823)	(2,611)	(2,714)
	18,504	**19,626**	**16,213**	**17,387**

11. Loans and advances to customers (continued)

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

Group			2016			2015
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	**2,578**	**245**	**2,823**	**2,420**	**213**	**2,633**
Increase in/(reversal of) impairment losses	156	(27)	129	334	32	366
Amounts recovered during the year	(43)	–	(43)	(51)	–	(51)
Net charge/(release) recognised in profit or loss (Note 33)	113	(27)	86	283	32	315
Net foreign exchange (loss)/profit	(6)	–	(6)	8	–	8
Write offs	(185)	–	(185)	(133)	–	(133)
At 31 December	**2,500**	**218**	**2,718**	**2,578**	**245**	**2,823**

Bank			2016			2015
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	**2,491**	**223**	**2,714**	**2,326**	**188**	**2,514**
Increase in/(reversal of) impairment losses	150	(24)	126	317	35	352
Collection of non-performing loans	(39)	–	(39)	(43)	–	(43)
Net charge/(release) recognised in profit or loss (Note 33)	111	(24)	87	274	35	309
Net foreign exchange loss	(6)	–	(6)	9	–	9
Write offs	(184)	–	(184)	(118)	–	(118)
At 31 December	**2,412**	**199**	**2,611**	**2,491**	**223**	**2,714**

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 from and advances to customers include the following finance lease receivables:

HRK millions	Group 2016	Group 2015
Gross investment in finance leases	680	724
Deferred fee income	(2)	(2)
Unearned finance income	(45)	(60)
Net investment in finance leases	**633**	**662**
Impairment losses	(71)	(73)
Net investment in finance leases	**562**	**589**

This disclosure is illustrative since there are no non-cancellable leases.

Gross investment in finance lease, with remaining maturities		
Less than one year	293	286
More than one and less than five years	376	379
More than five years	11	59
	680	**724**

12. Financial investments held to maturity

HRK millions	Group 2016	Group 2015
Debt securities		
– Government bonds, listed	289	279
Accrued interest	6	6
	295	285
Impairment allowance	(2)	(2)
	293	283

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

Group		2016			2015	
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	–	2	2	2	2	4
Write off	–	–	–	(2)	–	(2)
At 31 December	–	2	2	–	2	2

13. Investments in subsidiaries

The Group and the Bank had the following investments in subsidiaries, all incorporated in Croatia, as at 31 December 2016 and 31 December 2015:

	Nature of business	2016 %	Ownership 2015 %	2016 HRK millions	Investments 2015 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	100	50	57	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 reinsurance intermediary	100	75	–	–
Total		**n/p**	**n/p**	**408**	**366**

At 31 December 2015 the Bank 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 by the method of full consolidation, because the Group had control over subsidiary. In August 2016, the Bank purchased the remaining 50% equity stake from Raiffeisen-Leasing International GmbH and became 100% owner of Raiffeisen Leasing d.o.o.

14. Property, plant and equipment

Group 2016 HRK millions	Land and buildings	Equipment	Office furniture	Assets under operating leases	Assets under construction	Total
Gross carrying amount						
1 January 2016	915	441	79	1,026	5	2,466
Additions	–	–	–	–	361	361
Disposals	(6)	(55)	(3)	(291)	–	(355)
Transfers to other assets	(5)	–	–	–	–	(5)
Transfer into use	95	39	1	211	(346)	–
At 31 December 2016	**999**	**425**	**77**	**946**	**20**	**2,467**
Accumulated depreciation and impairment losses						
1 January 2016	241	374	76	293	–	984
Charge for the year (Note 32)	17	23	1	111	–	152
Disposals	(6)	(53)	(3)	(103)	–	(165)
At 31 December 2016	**252**	**344**	**74**	**301**	**–**	**971**
Carrying amount						
At 1 January 2016	**674**	**67**	**3**	**733**	**5**	**1,482**
At 31 December 2016	**747**	**81**	**3**	**645**	**20**	**1,496**

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 218 million (2015: HRK 223 million) has been pledged to secure borrowings of the Group (see Note 22).

Carrying value of land stated under the land and buildings, not subject to amortization amounted to HRK 55 million (2015: HRK 55 million).

14. Property, plant and equipment (continued)

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**

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 2016	Group 2015
Up to one year	127	134
More than one and less than five years	236	289
Over five years	5	10
	368	433

Bank 2016 HRK millions	Land and buildings	Equipment	Office furniture	Assets under construction	Total
Gross carrying amount					
1 January 2016	505	415	73	5	998
Additions	–	–	–	55	55
Disposals	–	(47)	–	–	(47)
Transfers into use	3	37	1	(41)	–
At 31 December 2016	508	405	74	19	1,006
Accumulated depreciation					
1 January 2016	114	356	70	–	540
Charge for the year (Note 32)	9	21	1	–	31
Disposals	–	(43)	–	–	(43)
At 31 December 2016	123	334	71	–	528
Carrying amount					
At 1 January 2016	391	59	3	5	458
At 31 December 2016	385	71	3	19	478

Assets under construction relates to equipment at cost of HRK 17 million (2015: HRK 5 million) and building in the amount of HRK 2 million (2015: 0)

There were no capitalized borrowing costs related to the acquisition of property, plant and equipment during the year.

A book value of land stated under the land and buildings, not subject to amortization amounted to HRK 28 million (2015: HRK 28 million).

14. Property, plant and equipment (continued)

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**

15. Intangible assets

Group 2016 HRK millions	Goodwill	Leasehold improvement	Software	Assets under construction	Total
Gross carrying amount					
1 January 2016	–	196	580	9	785
Additions	27	–	–	58	85
Disposals	–	(2)	(7)	–	(9)
Transfer into use	–	9	46	(55)	–
At 31 December 2016	**27**	**203**	**619**	**12**	**861**
Accumulated depreciation					
1 January 2016	–	138	452	–	590
Charge for the year (Note 32)	–	9	30	–	39
Disposals	–	(1)	(7)	–	(8)
At 31 December 2016	**–**	**146**	**475**	**–**	**621**
Carrying amount					
At 1 January 2016	**–**	**58**	**128**	**9**	**195**
At 31 December 2016	**27**	**57**	**144**	**12**	**240**

Assets under construction comprise software in the process of installation in the amount of HRK 11 million (2015: HRK 9 million) and leasehold improvement in the amount of HRK 1 million (2015:0).

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**

15. Intangible assets (continued)

Bank 2016 HRK millions	Leasehold improvement	Software	Assets under construction	Total
Gross carrying amount				
1 January 2016	185	533	8	726
Additions	–	–	55	55
Disposals	–	(6)	–	(6)
Transfer into use	8	45	(53)	–
At 31 December 2016	**193**	**572**	**10**	**775**
Accumulated amortisation				
1 January 2016	128	410	–	538
Charge for the year (Note32)	9	28	–	37
Disposals	–	(6)	–	(6)
At 31 December 2016	**137**	**432**	**–**	**569**
Carrying amount				
At 1 January 2016	**57**	**123**	**8**	**188**
At 31 December 2016	**56**	**140**	**10**	**206**

Assets under construction comprise software in the process of installation in the amount of HRK 10 million (2015: HRK 8 million).

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 (Note 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**

16. Deferred tax asset

Recognised deferred tax asset 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) to profit or loss		Net credit / (charge) to other comprehensive income	
HRK millions	2016	2015	2016	2015	2016	2015	2016	2015
Property, plant and equipment	–	–	(2)	(3)	1	–	–	–
Deferred fee and commission expense	–	–	(3)	(2)	(1)	–	–	–
Tax losses carried forward	33	135	–	–	(102)	113	–	–
Deferred fee and commission income	15	20	–	–	(5)	(6)	–	–
Unrealised losses on financial assets at fair value through profit or loss	27	49	–	–	(22)	(41)	–	–
Other provisions	26	25	–	–	1	1	–	–
Deferred tax assets/ (liabilities)	**101**	**229**	**(5)**	**(5)**	**(128)**	**67**	**–**	**–**
Unrealised losses for financial assets available for sale	(10)	(18)	–	–	–	–	(10)	(17)
Offset	(5)	(5)	5	5	–	–	–	–
Net deferred tax assets	**86**	**206**	**–**	**–**	**(128)**	**67**	**(10)**	**(17)**

16. Deferred tax asset (continued)

Recognised deferred tax asset and liabilities (continued)

Movements in temporary differences and underlying positions for deferred tax assets and deferred tax liabilities are as follows:

Bank	Assets		Liabilities		Net credit/(charge) to profit or loss		Net credit / (charge) to other comprehensive income	
HRK millions	2016	2015	2016	2015	2016	2015	2016	2015
Deferred fee and commission expense	–	–	(1)	(1)	–	–	–	–
Deferred fee and commission income	13	19	–	–	(6)	(4)	–	–
Unrealised losses on financial assets at fair value through profit or loss	26	46	–	–	(20)	(41)	–	–
Tax losses carried forward	33	134	–	–	(101)	116		
Other provisions	19	17	–	–	2	(1)	–	–
Deferred tax assets /(liabilities)	**91**	**216**	**(1)**	**(1)**	**(125)**	**70**	**–**	**–**
Unrealised gains/losses for financial assets available for sale	(7)	(14)	–	–	–	–	(7)	(15)
Offset	(1)	(1)	1	1	–	–	–	–
Net deferred tax assets	**83**	**201**	**–**	**–**	**(125)**	**70**	**(7)**	**(15)**

17. Other assets

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Accrued fee and commission receivables	33	36	19	22
Deferred fee and commission expenses	6	4	1	1
Inventory and foreclosed assets	101	141	58	86
Prepayments	62	82	62	84
Receivables from credit and debit card business	49	31	49	31
Receivables in respect of operating leases	11	11	–	–
Government housing savings subsidies receivable	5	6	–	–
Receivables for unsettled securities sold	1	18	1	18
Receivables from repurchase of domestic currency cash	4	65	4	65
Other assets	68	52	34	32
	340	**446**	**228**	**339**
Impairment allowance	(55)	(72)	(49)	(66)
	285	**374**	**179**	**273**

Movement in impairment allowance

Group HRK millions	Identified losses	Unidentified losses	2016 Total	Identified losses	Unidentified losses	2015 Total
At 1 January	**71**	**1**	**72**	**76**	**14**	**90**
Charges	28	–	28	12	–	12
Release	(17)	(1)	(18)	(4)	(13)	(17)
Net charge/(release) recognised in profit or loss (Note 33)	11	(1)	10	8	(13)	(5)
Write offs	(27)	–	(27)	(13)	–	(13)
At 31 December	**55**	**–**	**55**	**71**	**1**	**72**

17. Other assets (continued)

Movement in impairment allowance (continued)

Bank			2016			2015
HRK millions	Identified losses	Unidentified losses	Total	Identified losses	Unidentified losses	Total
At 1 January	**65**	**1**	**66**	**68**	**14**	**82**
Charges	28	–	28	12	–	12
Release	(17)	(1)	(18)	(3)	(13)	(16)
Net charge/(release) recognised in profit or loss (Note 33)	11	(1)	(10)	9	(13)	(4)
Write offs	(27)	–	(27)	(12)	–	(12)
At 31 December	**49**	**–**	**49**	**65**	**1**	**66**

18. Financial liabilities at fair value through profit or loss

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Negative fair value of OTC derivative instruments	89	102	89	102
Negative fair value of OTC spot transactions	1	1	1	1
Fair value hedge	6	6	6	6
Accrued interest	1	2	1	2
	97	**111**	**97**	**111**

19. Deposits from banks

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Current accounts and demand deposits				
– from parent bank	27	3	27	3
– from RBI group banks other than parent bank	7	4	16	10
– from other banks	212	154	212	155
Time deposits				
– from other RBI group banks	–	–	70	83
– from other banks	195	85	195	85
	441	**246**	**520**	**336**

20. Deposits from companies and other similar entities

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Current accounts and demand deposits	8,448	7,439	8,646	7,902
Time deposits	1,435	1,346	1,435	1,362
Accrued interest	8	9	9	9
	9,891	**8,794**	**10,090**	**9,273**

21. Deposits from individuals

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Current accounts and demand deposits	4,589	3,576	4,589	3,573
Time deposits	9,616	11,180	8,558	10,028
Accrued interest	48	90	48	90
	14,253	**14,846**	**13,195**	**13,691**

22. Borrowings

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
From ultimate parent bank	662	1,126	39	38
From RBI Group bank other than Parent bank	604	649	–	12
From other banks	2,372	2,132	1,370	1,413
From companies and other financial institutions	347	341	347	341
Accrued interest	9	4	6	1
Less deferred income	(2)	(1)	(3)	(3)
	3,992	**4,251**	**1,759**	**1,802**

Movements of outstanding borrowings

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
At 1 January	4,251	5,345	1,802	2,451
New borrowings	2,085	2,384	777	653
Repayment of borrowings	(2,310)	(3,483)	(809)	(1,303)
Foreign exchange differences	(34)	5	(11)	1
At 31 December	**3,992**	**4,251**	**1,759**	**1,802**

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

23. Provisions for liabilities and charges

Group HRK millions	Total	Off balance sheet exposure identified	Off balance sheet exposure unidentified	Provision for pension insurance	Provisions for unused holiday	Provision for court cases	Provisions for CHF conversion
At 1 January 2016	**804**	**43**	**75**	**2**	**8**	**59**	**617**
Provision released during the year	(631)	(20)	–	–	–	–	(611)
Provision created during the year	14	–	5	1	1	7	–
(Credit)/charge recognised in profit or loss	(617)	(20)	5	1	1	7	(611)
At 31 December 2016	**187**	**23**	**80**	**3**	**9**	**66**	**6**

Group HRK millions	Total	Off balance sheet exposure identified	Off balance sheet exposure unidentified	Provision 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
Charge/(credit) recognised in profit or loss	622	3	(1)	–	3	–	617
At 31 December 2015	**804**	**43**	**75**	**2**	**8**	**59**	**617**

23. Provisions for liabilities and charges (continued)

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 where under the loan principal was pegged to the CHF. The said ruling determined that the banks violated the collective interests and rights of consumer's 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.

Until 31 December 2016, 255 borrowers with unilaterally variable interest rate changing pursuant to the Bank's decision, instituted individual litigations against the Bank. In the litigations they appeal to the ruling of the Supreme Court of the Republic of Croatia dated May 2015 passed in the collective litigations for the same subject matter in favor of the borrowers. In the instituted individual litigations the borrowers claim a total amount of HRK 6,600 thousand, and the Bank formed provisions for these litigations in the amount of HRK 612 thousand. In 1H 2016 a part of the consumers executed the CHF loan conversion in accordance with the Act on change and amendments to the Consumer Financing Act, so 30 plaintiffs lost their interest in further litigating. In these litigations The Bank expects only the decisions of the courts on the parties' liabilities regarding litigation expenses.

In all individual litigations the Bank intends to prove that all changes to the regular interest rates in the loan agreements with the consumers were based on fair and justified reasons. The Bank also points out the objection of limitation of actions, deeming that limitation of actions starts as of the first payment of the increased interest rate, and not as of the date of the first instance verdict (July 2013), the second instance verdict (July 2014) or as of the date of the Supreme Court ruling (May 2015) in the collective litigation. The first instance verdict was passed in three individual litigations, where in two cases the court accepted the litigation claim, and rejected it in one. Appeals were placed against the first instance verdicts, of which not one has been finally resolved.

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23. Provisions for liabilities and charges (continued)

Bank HRK million	Total	Off balance sheet items Identified	Off balance sheet items Unidentified	Provisions for pension insurance	Provisions for unused holiday	Provision for court case	Provisions for CHF conversion
At 1 January 2016	793	43	75	2	6	50	617
Provision released during the year	(631)	(20)	–	–	–	–	(611)
Provision created during the year	14	–	5	1	1	7	–
Provisions recognised in profit or loss	(617)	(20)	5	1	1	7	(611)
At 31 December 2016	176	23	80	3	7	57	6

Bank HRK million	Total	Off balance sheet items Identified	Off balance sheet items Unidentified	Provisions for pension insurance	Provisions for unused holiday	Provision for court case	Provisions for CHF conversion
At 1 January 2016	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

24. Other liabilities

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Technical reserves for pension insurance	403	378	–	–
Liabilities in respect of credit and debit card business	101	76	101	76
Liabilities to employees	60	72	51	63
Liabilities to suppliers	73	69	67	62
Deferred fee and commission income prepayments	17	15	7	6
Liabilities for prepaid loans and advances from individuals	45	20	33	12
Repurchase of domestic currency cash	4	53	4	53
Government housing savings subsidies	5	6	–	–
Other liabilities	68	77	29	43
	776	**766**	**292**	**315**

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 2016.

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 2016	Group 2015	Bank 2016	Bank 2015
Loan	831	840	831	840
Accrued interest	6	6	6	6
	837	**846**	**837**	**846**

26. Interest income

a) Analysis by product

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Derivative financial instruments	5	17	8	20
Financial assets at fair value through profit or loss	58	64	45	51
Financial assets available for sale	50	47	36	33
Placements with banks	3	3	5	5
Loans and advances to customers and similar entities	410	491	331	395
Loans and advances to individuals	763	812	723	767
Financial instruments held to maturity	16	18	–	–
	1,305	1,452	1,148	1,271

b) Analysis by source

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Companies	323	411	241	314
Individuals	763	812	723	767
State and the public sector	206	202	169	162
Banks and other financial institutions	13	25	15	26
Other organisations	–	2	–	2
	1,305	1,452	1,148	1,271

27. Interest expense

a) Analysis by product

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Derivative financial instruments	21	25	21	25
Derivative financial instruments in fair value hedges	2	1	2	1
Deposits from banks	7	1	7	1
Deposits from companies and other similar entities	27	36	28	38
Deposits from individuals	141	236	111	199
Borrowings	64	74	27	32
Subordinated liabilities	55	46	55	46
	317	419	251	342

27. Interest expense (continued)

b) Analysis by recipient

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Companies	25	34	26	36
Individuals	141	236	111	199
State and public sector	1	1	1	1
Banks and other financial institutions	149	147	112	105
Other organizations	1	1	1	1
	317	419	251	342

28. Fee and commission income

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Domestic payment transactions	102	105	102	106
Investment management, custody and consultancy fees	173	176	22	28
Credit cards	215	200	215	200
Foreign exchange payment transactions	69	76	69	76
Partial recharge of credit insurance costs (Note 29)	19	17	19	17
Guarantees and letter of credits	32	37	32	37
Loans and accounts administration fee	43	44	38	38
Other fees and commission income	41	49	46	52
	694	704	543	554

29. Fee and commission expense

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Credit card related charges	176	163	176	163
Domestic payment transactions	22	22	22	22
Partially rechargeable credit insurance costs (Note 28)	29	26	29	26
Other fees and commission expense	30	31	19	22
	257	242	246	233

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 and foreign exchange differences from translation of monetary assets and liabilities

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Gains less losses from trading financial instruments				
Debt securities	7	(9)	7	(9)
Treasury bills	–	2	–	2
Equity securities	(1)	(1)	(1)	(1)
Derivative financial instruments	87	(25)	90	(18)
	93	**(33)**	**96**	**(26)**
Gains less losses from financial assets designated at fair value through profit or loss				
Realised gain/(loss) on disposal of: – debt securities	15	4	13	4
– treasury bills	1	(1)	–	(1)
Unrealised gain/(loss) on:				
– debt securities	13	–	–	–
– equity securities	–	(1)	–	–
	29	**2**	**13**	**3**
Gains less losses from financial assets available for sale	99	9	94	9
Gains less losses arising from trading in foreign currencies	103	64	104	66
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	126	(67)	70	(86)
– foreign exchange translation gain on assets and liabilities with foreign currency clause	(135)	177	(107)	161
Total foreign exchange differences	**(9)**	**110**	**(37)**	**75**
	315	**152**	**270**	**127**

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 2016	Group 2015	Bank 2016	Bank 2015
Rental income from operating leases	156	164	–	–
Service contract revenue	1	2	–	–
Premium on pension insurance contracts	122	147	–	–
Dividend from subsidiaries	–	–	72	55
Other income	43	30	21	16
	322	343	93	71

32. Operating expenses

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Personnel expenses	420	424	359	363
Depreciation of property, plant and equipment	152	153	31	33
IT expenses	92	89	85	85
Increase in technical reserve for pension insurance	28	24	–	–
Office space expenses	72	74	81	86
Legal, advisory and consulting expenses	57	49	51	45
Deposit insurance expense	43	46	39	42
Amortisation of intangible assets	39	42	37	39
Communication expenses	36	37	31	32
Advertising, PR and promotional expenses	30	29	25	25
Resolution fund fee	20	18	20	18
REGOS, HANFA expenses	25	25	–	–
Loss on disposal of assets under operating lease	4	6	–	–
Loan conversion expenses	655	–	655	–
Other administrative expenses	204	215	67	54
	1,877	1,231	1,481	822

Personnel expenses of the Group include HRK 68 million (2015: HRK 66 million) of defined pension contributions paid or payable into obligatory pension plans. Contributions are calculated as a percentage of employee's gross salaries. The Group had 2,309 employees at 31 December 2016 (2015: 2,319 employees).

Personnel expenses of the Bank include HRK 59 million (2015: 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 2,052 employees at 31 December 2016 (2015: 2,082 employees).

33. Impairment losses

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Cash and current accounts with banks (Note 6)	12	10	12	10
Obligatory reserve with the Croatian National Bank (Note 7)	(5)	3	(5)	3
Placements with and loans to other banks (Note 9)	4	(4)	4	(4)
Loans and advances to customers (Note 11)	86	315	87	309
Other assets (Note 17)	10	(5)	10	(4)
	107	**319**	**108**	**314**
Hereof:				
Identified losses	**124**	**291**	**122**	**283**
Unidentified losses	**(17)**	**28**	**(14)**	**31**

34. Income tax expense

HRK millions	Note	Group 2016	Group 2015	Bank 2016	Bank 2015
Recognised in profit or loss					
- Current tax expense		(32)	(35)	–	–
- Deferred taxes	16	(128)	67	(125)	70
Income tax expense		**(160)**	**32**	**(125)**	**70**
Reconciliation of income tax expense at 20%					
(Loss)/profit before tax		**695**	**(182)**	**585**	**(311)**
Income tax at 20%		(139)	36	(117)	62
Adjustment of income tax from the previous year in the current year		(3)	(2)	(3)	(2)
Non-deductible expenses		(17)	(6)	(15)	(5)
Tax incentives and tax exempt income		9	4	20	15
Changes in statutory tax rate (20% to 18%)		(10)	–	(10)	–
Income tax expense		**(160)**	**32**	**(125)**	**70**
Effective income tax rate		**23.02%**	**17.58%**	**21.37%**	**22.51%**

34. Income tax expense (continued)

Deferred tax assets

As at 31 December 2016, the Bank has HRK 183 million gross tax losses (2015: HRK 671 million), while the subsidiaries' gross tax losses amounted to HRK 28 million (2015: HRK 48 million). 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 were as follows:

Group HRK millions	Gross tax losses 2016	Tax benefit 2016	Gross tax losses 2015	Tax benefit 2015
31 December 2016	–	–	7	1
31 December 2017	25	5	32	6
31 December 2018	2	–	8	2
31 December 2019	–	–	89	18
31 December 2020	184	33	583	117
31 December 2021	–	–	–	–
	211	38	719	144

Bank Milijuni HRK	Gross tax losses 2016	Tax benefit 2016	Gross tax losses 2015	Tax benefit 2015
31 December 2019	–	–	89	18
31 December 2020	183	33	582	116
	183	33	671	134

35. Share capital

Group and Bank HRK millions	2016 Total of ordinary shares	2015 Total share
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.

Group and Bank	2016 Ordinary Shares %	2015 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, totaling 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.

Payment of dividend will be determined by the Supervisory Board and confirmed by the General Assembly meeting during the May 2017. Payment will be in range of HRK 275 million to HRK 460 million.

During 2016 the subsidiaries proposed and paid HRK 72 million of dividends from retained earnings (2015: HRK 55 million).

The Bank's expected dividend payment from subsidiaries in 2017 amounts to HRK 63 million.

38. Non-controlling interest

HRK millions	Group 2016	Group 2015
At 1 January	68	65
Share of retained profit for the year	–	6
Distribution of dividend	–	(3)
Acquisition of the remaining equity stake in Raiffeisen Leasing d.o.o.	(68)	–
At 31 December	**–**	**68**

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. Also, since there is no preferred shares and therefore neither dividends, available profit is equal to profit for the year after tax attributable to owners of the Bank.

	Group 2016	Group 2015	Bank 2016	Bank 2015
Net profit/(loss) for the year attributable to owners of the parent net of proposed dividend on preference shares	535	(156)	460	(241)
Weighted average number of ordinary shares outstanding during the year	3,621,432	3,621,432	3,621,432	3,621,432
Earnings per share attributable to owners of the parent in HRK	**147**	**(43)**	**127**	**(66)**

40. Cash and cash equivalents

HRK millions	Notes	Group 2016	Group 2015	Bank 2016	Bank 2015
Cash in hand	6	712	762	712	762
Items in the course of collection	6	1	1	1	1
Gyro account with the Croatian National Bank	6	2,969	1,735	2,969	1,735
Current accounts with other banks	6	75	163	71	159
Placements with and loans to other banks with original maturity up to three months		1,262	896	1,262	884
Impairment allowance		(51)	(35)	(51)	(35)
		4,968	**3,522**	**4,964**	**3,506**

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 2016	Group 2015	Bank 2016	Bank 2015
Gyro account with the Croatian National Bank	6	2,969	1,735	2,969	1,735
Deposits with the Croatian National Bank	9	8	–	8	–
Obligatory reserve with the Croatian National Bank	7	1,695	2,002	1,695	2,002
Government bonds, direct exposure	8, 10, 12	2,804	2,237	1,944	1,406
Treasury bills issued by the Ministry of Finance	8, 10, 12	603	809	537	743
Loans and advances to customers	11	865	1,349	752	1,195
Current tax asset		–	4	–	9
Unidentified impairment losses		(67)	(65)	(64)	(61)
Borrowings		(174)	–	(174)	–
Deposits from the Republic of Croatia		(80)	(123)	(80)	(123)
		8,623	**7,948**	**7,587**	**6,906**

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 2016	Group 2015	Bank 2016	Bank 2015
Loans and advances to customers guaranteed by the State	523	754	410	602
Guarantees, letters of credit and undrawn lending facilities	8	6	8	6
	531	**760**	**418**	**608**

The total net direct and indirect on and off-balance-sheet exposure to Republic of Croatia represents 21% of the total assets and off-balance-sheet exposure of the Group (2015: 22%) and 20% of the total assets and off-balance-sheet exposure of the Bank (2015: 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
2016				
Securities at fair value through profit or loss	248	241	January-May 2017 February 2020	246
Financial assets available for sale	322	309	January-March 2017 February 2020	314
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

Bank HRK millions	Fair value of underlying assets	Carrying amount of corresponding liabilities	Repurchase date	Repurchase price
2016				
Securities at fair value through profit or loss	248	241	January-May 2017 February 2020	246
Financial assets available for sale	322	309	January-March 2017 February 2020	314
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

42. Repurchase and reverse repurchase 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				
2016	208	184	January-May 2017	185
2015	152	136	January 2016	136

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 2016	Group 2015	Bank 2016	Bank 2015
Guarantees	2,897	3,055	2,904	3,110
Letters of credit	58	106	58	106
Undrawn lending facilities	5,254	4,451	5,120	4,333
	8,209	**7,612**	**8,082**	**7,549**

At 31 December 2016, 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 103 million (2015: 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 CHF. 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 CHF 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 2016, the total assets under custody held by the Group on behalf of customers were HRK 6,100 million (2015: HRK 6,236 million).

In addition, at 31 December 2016, total assets of investment and pension funds under Group management amounted to HRK 27,464 million (2015: HRK 25,993 million).

During 2016 the Group made income in the amount of HRK 161 million (2015: HRK 157 million) of fees on trust activities provided to companies, banks and individuals, and management of investment and pension funds.

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

HRK millions	2016	2015
Assets		
– Loans to companies	132	146
Total assets	**132**	**146**
Liabilities		
– Financial institutions	132	146
Total liabilities	**132**	**146**

45. Derivative instruments and foreign currency trading

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

Group 2016 HRK millions	Notional amount, remaining life Up to 3 month	 3 – 12 months	 1 – 5 years	 Over 5 years	 Total	Fair values Assets	 Liabilities
– Forward foreign exchange contracts – OTC							
– EUR	3,164	1,541	250	–	4,955	–	–
– USD	927	78	–	–	1,005	5	11
– other currencies	119	14	–	–	133	11	11
– HRK	2,116	1,449	–	–	3,565	86	6
– Cross currency swap – OTC	8	8	63	40	119	–	6
– Interest rate swap – OTC	35	107	744	322	1,208	6	51
– Futures	531	–	–	–	531	–	4
	6,900	**3,197**	**1,057**	**362**	**11,516**	**108**	**89**
Unsettled foreign currency spot transactions - OTC	2,399	–	–	–	2,399	1	1

Group 2015 HRK millions	Notional amount, remaining life Up to 3 month	 3 – 12 months	 1 – 5 years	 Over 5 years	 Total	Fair values Assets	 Liabilities
– Forward foreign 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

45. Derivative instruments and foreign currency trading (continued)

Bank 2016 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							
– EUR	3,334	1,541	250	–	5,125	–	–
– USD	927	78	–	–	1,005	5	11
– other currencies	119	14	–	–	133	11	11
– HRK	2,116	1,453	–	–	3,569	87	6
– Cross currency swap – OTC	8	8	63	40	119	–	6
– Interest rate swap – OTC	38	117	849	322	1,326	13	51
– Futures	531	–	–	–	531	–	4
	7,073	**3,211**	**1,162**	**362**	**11,808**	**116**	**89**
Unsettled foreign currency spot transactions – OTC	2,399	–	–	–	2,399	1	1

Bank 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 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

45. Derivative instruments and foreign currency trading (continued)

Fair value hedging	Average fixed interest rate		Nominal amount		Fair value	
	2016 %	2015 %	2016 HRK millions	2015 HRK millions	2016 HRK millions	2015 HRK millions
Hedged instrument - loans and advances to customers	7.14	6.56	122	123	6	6
Hedging instrument - Interest rate swap 1 to 5 years	1.113	1.113	122	123	(6)	(6)

The hedge effectiveness ratio for the year ended was 99.87% (2015:99.51%).

Interest rate related contracts

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

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

Group HRK millions	2016	2015
Pay fixed swaps – notional amount	1,095	1,084
Pay variable swaps – notional amount	247	280
Average passive fixed rate	1.51%	1.64%
Average active variable rate	(0.31%)	(0.12%)
Average passive variable rate	(0.32%)	(0.06%)
Average active fixed rate	0.72%	1.03%

Bank HRK millions	2016	2015
Pay fixed swaps – notional amount	1,095	1,084
Pay variable swaps – notional amount	366	412
Average passive fixed rate	1.57%	1.64%
Average active variable rate	(0.31%)	(0.12%)
Average passive variable rate	(0.34%)	(0.09%)
Average active fixed rate	1.14%	1.36%

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, arising from transactions with related parties were as follows:

HRK millions	Group 2016	Group 2015	Group 2016	Group 2015
Statement of total comprehensive income				
Interest, fee and commission income				
– Raiffeisen Leasing d.o.o.	–	–	20	21
– Raiffeisen stambena štedionica d.d.	–	–	5	5
– Raiffeisen Consulting d.o.o.	–	–	5	6
– Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	–	–	1	1
– Raiffeisen mirovinsko osiguravajuće društvo d.d.	–	–	1	1
– Raiffeisen Factoring d.o.o.	–	–	3	3
– Raiffeisen Invest d.o.o.	–	–	2	5
– RBI	3	12	3	12
Total	**3**	**12**	**40**	**54**
Interest, fee and commission expense				
– Raiffeisen Leasing d.o.o.	–	–	–	(1)
– Raiffeisen stambena štedionica d.d.	–	–	(1)	(1)
– Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	–	–	(1)	(1)
– RBI	(99)	(114)	(82)	(86)
– RBI Group	(20)	(14)	(10)	(10)
Total	**(119)**	**(128)**	**(94)**	**(99)**

46. Related party transactions (continued)

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Trading and other income				
– Raiffeisen Leasing d.o.o.	–	–	1	7
– Raiffeisen stambena štedionica d.d.	–	–	1	2
– Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	–	–	67	53
– Raiffeisen mirovinsko osiguravajuće društvo d.d.	–	–	5	1
– Raiffeisen Invest d.o.o.	–	–	–	1
– Raiffeisen Consulting d.o.o.	–	–	2	2
– Raiffeisen Factoring d.o.o.	–	–	2	4
– RBI	1	(133)	1	(133)
– RBI Group	–	12	–	12
Total	**1**	**(121)**	**79**	**(51)**
Operating expenses				
– Raiffeisen Leasing d.o.o.	–	–	(4)	(6)
– Raiffeisen Consulting d.o.o.	–	–	(20)	(18)
– Raiffeisen Factoring d.o.o.	–	–	–	(2)
– RBI	(38)	(37)	(38)	(37)
– RBI Group	–	(2)	–	(2)
Total	**(38)**	**(39)**	**(62)**	**(65)**
Assets				
Current accounts and placements with banks				
– Raiffeisen stambena štedionica d.d.	–	–	51	52
– RBI	22	36	22	32
– RBI Group	5	18	5	18
Total	**27**	**54**	**78**	**102**
Loans and advances to customers				
– Raiffeisen Consulting d.o.o.	–	–	82	68
– Raiffeisen Leasing d.o.o.	–	–	334	353
Total	**–**	**–**	**416**	**421**
Accrued income and other assets				
– Raiffeisen Leasing d.o.o.	–	–	5	10
– Raiffeisen Consulting d.o.o.	–	–	8	15
– Raiffeisen stambena štedionica d.d.	–	–	–	1
– Raiffeisen Factoring d.o.o.	–	–	–	11
– RBI	27	15	27	15
– RBI Group	–	6	–	6
Total	**27**	**21**	**40**	**58**

46. Related party transactions (continued)

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Liabilities				
Deposits				
– Raiffeisen Leasing d.o.o.	–	–	61	41
– Raiffeisen stambena štedionica d.d.	–	–	79	90
– Raiffeisen društvo za upravljanje obveznim dobrovoljnim mirovinskim fondovima d.d.	–	–	64	76
– Raiffeisen mirovinsko osiguravajuće društvo d.d.	–	–	27	22
– Raiffeisen Factoring d.o.o.	–	–	97	401
– Raiffeisen Invest d.o.o.	–	–	11	9
– Raiffeisen Bonus d.o.o.	–	–	–	1
– RBI	27	3	27	3
– RBI Group	8	5	8	5
Total	**35**	**8**	**374**	**648**
Borrowings				
– Raiffeisen stambena štedionica d.d.	–	–	–	12
– RBI	1,493	1,973	869	883
– RBI Group	605	649	–	–
Total	**2,098**	**2,622**	**869**	**895**
Accruals and other liabilities				
– RBI	89	72	89	72
– RBI Group	1	2	1	2
Total	**90**	**74**	**90**	**74**
Off–balance sheet exposure				
Derivative instruments				
– Raiffeisen Leasing d.o.o.	–	–	8	38
– Raiffeisen Consulting d.o.o.	–	–	280	297
– RBI	6,006	5,572	6,006	5,572
– RBI Group	2	60	2	60
Total	**6,008**	**5,632**	**6,296**	**5,967**

46. Related party transactions (continued)

2016 HRK millions	Exposure	Liabilities	Income	Expense
Group				
Key management personnel				
Short-term benefits (salaries and fees)	–	16	–	40
Long-term benefits	–	–	–	4
Loans and advances	27	–	1	–
Deposits	–	18	–	–
Total	27	34	1	44
Bank				
Key management personnel				
Short-term benefits (salaries and fees)	–	13	–	17
Long-term benefits	–	–	–	2
Loans and advances	5	–	–	–
Deposits	–	2	–	–
Total	5	15	–	19

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

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 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 behavior and the monitoring is performed on a monthly basis. Customers are classified according to their risk profile (low, medium, high) and appropriate actions are taken as per their category.

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	Group 2016	Group 2015	Bank 2016	Bank 2015
Cash and current accounts with banks	6	3,008	1,874	3,004	1,870
Obligatory reserve with the Croatian National Bank	7	1,675	1,977	1,675	1,977
Financial assets at fair value through profit or loss	8	2,508	2,281	2,146	1,946
Placements with, and loans and advances to banks	9	1,332	955	1,384	991
– Loans and advances to customers					
– Corporate	11	8,660	8,781	7,028	7,216
– Retail (individuals)		9,844	10,845	9,185	10,171
Financial assets available for sale	10	5,188	4,964	4,892	4,680
Financial investments held to maturity	12	293	283	–	–
Current tax asset		–	4	1	9
Other assets	17	101	119	44	60
		32,609	32,083	29,359	28,920

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

Contingent liabilities and commitments HRK millions	Notes	Group 2016	Group 2015	Bank 2016	Bank 2015
Guarantees	43	2,897	3,055	2,904	3,110
Letters of credit and undrawn lending facilities	43	5,312	4,557	5,178	4,439
		8,209	7,612	8,082	7,549
Impairment allowance		(103)	(118)	(103)	(118)
		8,106	7,494	7,979	7,431

47. Risk management (continued)

Credit risk (continued)

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

Concentration of credit risk by geographic region and industry

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

HRK millions	Group 2016 Balance sheet exposure	Group 2016 Off-balance sheet exposure	Group 2015 Balance sheet exposure	Group 2015 Off-balance sheet exposure	Bank 2016 Balance sheet exposure	Bank 2016 Off-balance sheet exposure	Bank 2015 Balance sheet exposure	Bank 2015 Off-balance sheet exposure
Geographic region:								
Croatia	29,732	8,089	29,559	7,589	26,366	7,962	26,282	7,526
Rest of EU	4,466	114	4,508	15	4,466	114	4,504	15
Non EU	240	5	169	4	240	5	169	4
Other	1,024	1	811	4	1,024	1	811	4
Total	35,462	8,209	35,047	7,612	32,096	8,082	31,766	7,549
Impairment allowance	(2,853)	(103)	(2,964)	(118)	(2,737)	(103)	(2,846)	(118)
	32,609	8,106	32,083	7,494	29,359	7,979	28,920	7,431

Concentration of credit risk by industry:

	Group 2016 %	Group 2015 %	Group 2016 %	Group 2015 %
Individuals	27	31	28	31
Financial services	18	15	20	16
Trade	10	11	9	9
Central and local government	16	14	15	15
Construction	6	6	6	6
Food and drink industry	4	3	3	3
Non-metal industry	5	5	5	5
Electronics	2	3	2	3
Wood and paper industry	1	1	1	1
Craft and services	8	8	8	8
Other business activities	3	3	3	3
Total loans and advances to customers	100	100	100	100

47. Risk management (continued)

Credit risk (continued)

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

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

Rating	2016 Group			2015 Group		
HRK millions	Total exposure	Impairment allowances	Net exposure	Total exposure	Impairment allowances	Net exposure
A	40,307	373	39,934	38,771	386	38,385
B1	389	73	316	644	119	525
B2	667	377	290	1,122	640	482
B3	1,137	962	175	1,106	921	185
C	1,171	1,171	–	1,016	1,016	–
Total	**43,671**	**2,956**	**40,715**	**42,659**	**3,082**	**39,577**

Rating	2016 Bank			2015 Bank		
HRK millions	Total exposure	Impairment allowances	Net exposure	Total exposure	Impairment allowances	Net exposure
A	36,929	352	36,577	35,543	360	35,183
B1	369	71	298	622	117	505
B2	665	376	289	1,119	639	480
B3	1,131	957	174	1,095	912	183
C	1,084	1,084	–	936	936	–
Total	**40,178**	**2,840**	**37,338**	**39,315**	**2,964**	**36,351**

Loans to customers	Group	Group	Bank	Bank
HRK millions	2016	2015	2016	2015
Neither past due nor impaired	9,385	11,025	8,519	9,191
Past due but not impaired	7,618	7,729	7,454	7,487
Impaired loans and advances to customers	4,219	3,695	2,851	3,423
	21,222	**22,449**	**18,824**	**20,101**
Impairment allowance	(2,718)	(2,823)	(2,611)	(2,714)
	18,504	**19,626**	**16,213**	**17,387**

Thereof loans to companies and similar entities

	Group	Group	Bank	Bank
HRK millions	2016	2015	2016	2015
Neither past due nor impaired	3,008	4,483	2,146	2,651
Past due but not impaired	4,143	3,691	4,442	3,931
Impaired loans to customers	3,323	2,534	2,161	2,467
	10,474	**10,708**	**8,749**	**9,049**
Impairment allowance	(1,814)	(1,927)	(1,721)	(1,833)
	8,660	**8,781**	**7,028**	**7,216**

47. Risk management (continued)

Credit risk (continued)

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

Thereof loans to individuals

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Neither past due nor impaired	6,377	6,542	6,373	6,540
Past due but not impaired	3,475	4,038	3,012	3,556
Impaired loans to customers	896	1,161	690	956
	10,748	11,741	10,075	11,052
Impairment allowance	(904)	(896)	(890)	(881)
	9,844	10,845	9,185	10,171

Ageing of past due but not impaired receivables

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Up to 30 days	7,241	6,853	7,199	6,820
Up to 31 - 90 days	258	403	255	345
Up to 91 - 180 days	1	116	–	116
Up to 181 - 365 days	10	145	–	145
Over 365 days	108	212	–	61
	7,618	7,729	7,454	7,487

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, taking into consideration not only contractual maturity, but also experientially maturity of assets and liabilities. 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 in acceptable time period.

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.

47. Risk management (continued)

Liquidity risk (continued)

The Group aligns its business activities in line with legal 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 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. Both, LCR and NSFR were maintained above internal targets set for both ratios at 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.

			2016			2015
In EUR million	7 days	30 days	1 year	7 days	30 days	1 year
Liquidity gap	850	869	879	603	629	693
Liquidity ratio	208%	168%	131%	254%	202%	140%

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 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 2016 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	3,721	–	–	–	–	3,721
Obligatory reserve with the Croatian National Bank	1,675	–	–	–	–	1,675
Financial assets at fair value through profit or loss	2,078	–	437	–	–	2,515
Placements with and loans to other banks	1,253	–	79	–	–	1,332
Financial assets available for sale	256	199	1,034	3,581	147	5,217
Loans and advances to customers	2,476	1,464	3,035	7,215	4,314	18,504
Financial investments held to maturity	3	2	33	145	110	293
Property, plant and equipment	–	–	–	–	1,496	1,496
Intangible assets	4	–	–	–	236	240
Deferred tax asset	–	–	–	86	–	86
Other and Current tax asset	150	7	8	120	–	285
Total assets	**11,616**	**1,672**	**4,626**	**11,147**	**6,303**	**35,364**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	97	–	–	–	–	97
Deposits from banks	441	–	–	–	–	441
Deposits from companies and other similar entities	8,924	241	607	84	35	9,891
Deposits from individuals	5,763	1,791	4,759	1,870	70	14,253
Borrowings	139	498	1,444	1,642	269	3,992
Provisions for liabilities and charges	–	7	31	146	3	187
Other liabilities	319	28	91	217	121	776
Subordinated liabilities	–	–	6	–	831	837
Equity attributable to the equity holders of the parent	–	–	–	–	4,890	4,890
Total liabilities and equity	**15,683**	**2,565**	**6,938**	**3,959**	**6,219**	**35,364**
Maturity gap	**(4,067)**	**(893)**	**(2,312)**	**7,188**	**84**	**–**

47. Risk management (continued)

Maturity analysis (continued)

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 owners 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)

Bank 2016 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	3,717	–	–	–	–	3,717
Obligatory reserve with the Croatian National Bank	1,675	–	–	–	–	1,675
Financial assets at fair value through profit or loss	2,024	–	127	–	–	2,151
Placements with and loans to other banks	1,254	–	79	15	36	1,384
Financial assets available for sale	75	199	1,034	3,544	69	4,921
Loans and advances to customers	2,297	644	2,423	6,819	4,030	16,213
Investments in subsidiaries	–	–	–	–	408	408
Property, plant and equipment	–	–	–	–	478	478
Intangible assets	–	–	–	–	206	206
Deferred tax asset	–	–	–	83	–	83
Other and Current tax asset	112	1	4	63	–	180
Total assets	**11,154**	**844**	**3,667**	**10,524**	**5,227**	**31,416**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	97	–	–	–	–	97
Deposits from banks	450	–	70	–	–	520
Deposits from companies and other similar entities	9,121	238	648	60	23	10,090
Deposits from individuals	5,744	1,750	4,561	1,080	60	13,195
Borrowings	63	255	390	808	243	1,759
Provisions for liabilities and charges	–	6	30	137	3	176
Other liabilities	269	–	16	7	–	292
Subordinated liabilities	–	–	6	–	831	837
Equity	–	–	–	–	4,450	4,450
Total liabilities and equity	**15,744**	**2,249**	**5,721**	**2,092**	**5,610**	**31,416**
Maturity gap	**(4,590)**	**(1,405)**	**(2,054)**	**8,432**	**(383)**	**–**

47. Risk management (continued)

Maturity analysis (continued)

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)

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 and by Distributional test which is performed once a year.

■ Stress test

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. Stress testing is used to assess the impact of market risk on the portfolio of the Group's total positions and limits in extraordinary circumstances (market shocks).

Stress testing is conducted on a daily basis, and the results are included in the regular daily reports.

■ 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.

High-water mark year-to-date stop loss limits are applied to the cumulative profit and losses on a year-to date basis. S/L limits have to be defined and applied for all positions classified under IFRS as AFS, AFV, and HFT.

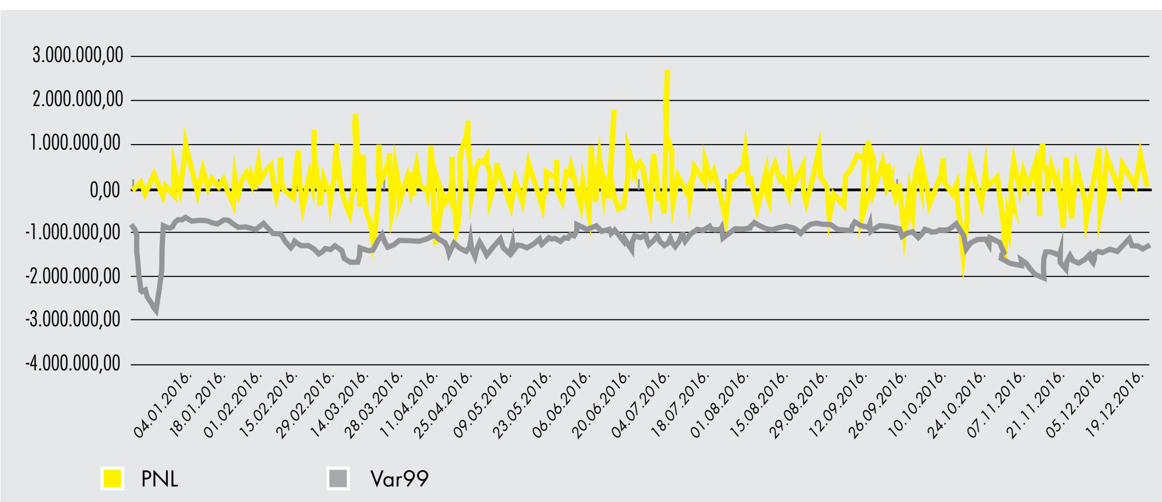
The limit resets to zero at the beginning of each calendar year, whereas the loss has to be calculated versus the maximum profit in the year-to-date period (total return).

47. Risk management (continued)

Market risk (continued)

Value-at-Risk for Year 2016 and Year 2015

HRK millions	December 2016	December 2015	Average	Min	Max
Interest rate risk					
- trading book	1,65	1,61	1,92	1,17	3,05
- banking book	10,81	2,75	6,48	2,01	14,82
Currency risk	0,18	0,48	0,55	0,05	1,83
Credit Spread Risk	2,53	6,1	5,08	2,12	21,27
Price risk	0,13	0,33	0,22	0,12	0,38
Total VaR	**9,57**	**6,69**	**8,71**	**4,84**	**21,10**



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 2016 three backtesting breaches were recorded.

Interest rate risk

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

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 (except the type of interest rate);
- Optionality risk.

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 2016 HRK millions	Non–interest bearing	Up to 1 month	1–3 months	3–12 months	Over 12 months	Total	Fixed interest rates
Assets							
Cash and current accounts with banks	3,717	4	–	–	–	3,721	–
Obligatory reserve with the Croatian National Bank	1,675	–	–	–	–	1,675	–
Financial assets at fair value through profit or loss	380	2,000	53	82	–	2,515	1,614
Placements with and loans to other banks	144	586	545	57	–	1,332	1,189
Financial assets available for sale	693	688	901	2,806	129	5,217	4,147
Loans and advances to customers	62	12,833	616	1,099	3,894	18,504	5,885
Financial investments held to maturity	4	50	21	51	167	293	289
Property, plant and equipment	1,496	–	–	–	–	1,496	–
Intangible assets	240	–	–	–	–	240	–
Deferred tax asset	86	–	–	–	–	86	–
Other and Current tax asset	285	–	–	–	–	285	–
Total assets	**8,782**	**16,161**	**2,136**	**4,095**	**4,190**	**35,364**	**13,124**
Liabilities and equity							
Financial liabilities at fair value through profit or loss	97	–	–	–	–	97	–
Deposits from banks	249	192	–	–	–	441	192
Deposits from companies and other similar entities	245	8,748	210	617	71	9,891	1,355
Deposits from individuals	48	5,731	1,790	4,756	1,928	14,253	9,601
Borrowings	52	1,513	860	1,008	559	3,992	1,308
Provisions for liabilities and charges	187	–	–	–	–	187	–
Other liabilities	776	–	–	–	–	776	–
Subordinated liability	6	–	453	–	378	837	378
Equity attributable to the owners of the parent	4,890	–	–	–	–	4,890	–
Total liabilities and equity	**6,550**	**16,184**	**3,313**	**6,381**	**2,936**	**35,364**	**12,834**
Interest rate gap	**2,232**	**(23)**	**(1,177)**	**(2,286)**	**1,254**	**–**	**290**

47. Risk management (continued)

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

Group 2015 HRK millions	Non-interest bearing	Up to 1 month	1-3 months	3-12 months	Over 12 months	Total	Fixed interest 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 owners 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)

Bank 2016 HRK millions	Non-interest bearing	Up to 1 month	1-3 months	3-12 months	Over 12 months	Total	Fixed interest rates
Assets							
Cash and current accounts with banks	3,717	–	–	–	–	3,717	–
Obligatory reserve with the Croatian National Bank	1,675	–	–	–	–	1,675	–
Financial assets at fair value through profit or loss	387	1,764	–	–	–	2,151	1,600
Placements with and loans to other banks	145	586	545	72	36	1,384	1,239
Financial assets available for sale	692	660	859	2,710	–	4,921	3,931
Loans and advances to customers	62	11,305	319	1,037	3,490	16,213	5,094
Investments in subsidiaries	408	–	–	–	–	408	–
Property, plant and equipment	478	–	–	–	–	478	–
Intangible assets	206	–	–	–	–	206	–
Deferred tax asset	83	–	–	–	–	83	–
Other and Current tax asset	180	–	–	–	–	180	–
Total assets	**8,033**	**14,315**	**1,723**	**3,819**	**3,526**	**31,416**	**11,864**
Liabilities and equity							
Financial liabilities at fair value through profit or loss	97	–	–	–	–	97	–
Deposits from banks	258	192	30	40	–	520	262
Deposits from companies and other similar entities	184	8,947	210	668	81	10,090	1,416
Deposits from individuals	48	5,711	1,749	4,558	1,129	13,195	8,542
Borrowings	51	110	230	809	559	1,759	1,308
Provisions for liabilities and charges	176	–	–	–	–	176	–
Other liabilities	292	–	–	–	–	292	–
Subordinated liabilities	6	–	453	–	378	837	378
Equity	4,450	–	–	–	–	4,450	–
Total liabilities and equity	**5,562**	**14,960**	**2,672**	**6,075**	**2,147**	**31,416**	**11,906**
Interest rate gap	**2,471**	**(645)**	**(949)**	**(2,256)**	**1,379**	**–**	**(42)**

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 interest 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)

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 2016	Up to 1 month %	1-3 months %	3-12 months %	Over 12 months %
Assets				
Financial assets at fair value through profit or loss	3.64	3.51	4.61	–
Placements with and loans to other banks	(0.12)	(0.20)	1.55	–
Financial assets available for sale	3.91	3.17	2.94	6.02
Loans and advances to customers	6.26	4.48	4.60	5.40
Financial investments held to maturity	4.91	6.71	3.58	6.50
Liabilities				
Deposits from banks	0.28	–	–	–
Deposits from companies and other similar entities	0.17	0.66	1.25	2.22
Deposits from individuals	0.22	0.86	0.92	1.87
Borrowings	1.00	1.53	0.86	2.05
Subordinated liabilities	–	6.26	–	6.75

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

47. Risk management (continued)

Average effective interest rates (continued)

Bank 2016	Up to 1 month %	1-3 months %	3-12 months %	Over 12 months %
Assets				
Financial assets at fair value through profit or loss	3.49	–	–	–
Placements with and loans to other banks	(0.12)	(0.20)	2.37	6.00
Loans and advances to customers	6.47	4.55	4.57	5.53
Financial assets available for sale	3.84	3.01	2.98	–
Liabilities				
Deposits from banks	0.28	0.52	0.51	–
Deposits from companies and other similar entities	0.17	0.66	1.23	2.36
Deposits from individuals	0.21	0.81	0.83	1.33
Borrowings	1.15	0.68	0.89	2.05
Subordinated liabilities	–	6.26	–	6.75

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

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 2016 and 2015:

BPV / Currency in HRK	EUR	USD	HRK
31 December 2016	8,885.4	(7,502.7)	(12,358.5)
Average	3,089.3	(5,271.2)	(20,143.3)
Minimum	(17,858.6)	(8,834.1)	(28,112.7)
Maximum	18,923.4	(2,344.7)	(11,969.6)

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)

Total BPV for trading book for 31 December 2016 was EUR 29,4 thousands in respect to 31 December 2015 when it was EUR 32,9 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 2016 and 2015:

BPV / Currency in HRK	HRK	EUR	USD
31 December 2015	(19,460.0)	(208,289.9)	(5,410.8)
Average	(24,222.4)	(179,572.9)	(3,027.0)
Minimum	(51,132.9)	(242,279.9)	(9,047.0)
Maximum	5,385.8	(26,217.9)	878.5

BPV / Currency in HRK	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)

Total BPV for non - trading book for 31 December 2016 was EUR 234,8 thousands in respect to 31 December 2015 when it was EUR 79,8 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 2016	31 December 2015
CHF	–	220,596
EUR	159,616	58,890
HRK	16,022	35,853
Other	(8,220)	(13,728)
Total	**167,418**	**301,611**
%	3.77%	6.6%

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 limits per position in a single instrument and a total equity delta limit as well as VaR limit for equity positions in trading book portfolio.

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 HRK 6 million (2015: HRK 617 million) is included in the position of the domestic currency.

Group 2016 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	92	–	13	–	89	194	3,527	3,721
Obligatory reserve with the Croatian National Bank	–	–	–	–	–	–	1,675	1,675
Financial assets at fair value through profit or loss	1,182	459	–	–	197	1,838	677	2,515
Placements with and loans to other banks	972	–	–	–	201	1,173	159	1.332
Financial assets available for sale	2,770	883	–	–	925	4,578	639	5,217
Loans and advances to customers	1,896	9,165	37	27	124	11,249	7,255	18,504
Financial investments held to maturity	7	238	–	–	–	245	48	293
Property, plant and equipment	–	–	–	–	–	–	1,496	1,496
Intangible assets	–	–	–	–	–	–	240	240
Deferred tax asset	–	–	–	–	–	–	86	86
Other and Current tax asset	14	28	–	–	1	43	242	285
Total assets	**6,933**	**10,773**	**50**	**27**	**1,537**	**19,320**	**16,044**	**35,364**
Liabilities and equity								
Financial liabilities at fair value through profit or loss	62	–	5	–	17	84	13	97
Deposits from banks	121	–	23	–	130	274	167	441
Deposits from companies and other similar entities	2,400	61	14	–	607	3,082	6,809	9,891
Deposits from individuals	8,507	957	298	–	1,647	11,409	2,844	14,253
Borrowings	2,484	424	–	–	7	2,915	1,077	3,992
Provisions for liabilities and charges	15	1	–	–	–	16	171	187
Other liabilities	14	370	–	–	1	385	391	776
Subordinated liability	837	–	–	–	–	837	–	837
Equity attributable to the owners of the parent	–	–	–	–	–	–	4,890	4,890
Total liabilities and equity	**14,440**	**1,813**	**340**	**–**	**2,409**	**19,002**	**16,362**	**35,364**
Currency gap	**(7,507)**	**8,960**	**(290)**	**27**	**(872)**	**318**	**(318)**	**–**

47. Risk management (continued)

Currency analysis (continued)

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 asset	–	–	–	–	–	–	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 owners 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)

Bank 2016 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	92	–	13	–	89	194	3,523	3,717
Obligatory reserve with the Croatian National Bank	–	–	–	–	–	–	1,675	1,675
Financial assets at fair value through profit or loss	1,147	247	–	–	197	1,591	560	2,151
Placements with and loans to other banks	987	–	–	–	201	1,188	196	1,384
Financial assets available for sale	2,770	647	–	–	925	4,342	579	4,921
Loans and advances to customers	1,896	7,220	37	27	124	9,304	6,909	16,213
Investments in subsidiaries	–	–	–	–	–	–	408	408
Property, plant and equipment	–	–	–	–	–	–	478	478
Intangible assets	–	–	–	–	–	–	206	206
Deferred tax asset	–	–	–	–	–	–	83	83
Other and Current tax asset	14	–	–	–	1	15	165	180
Total assets	**6,906**	**8,114**	**50**	**27**	**1,537**	**16,634**	**14,782**	**31,416**
Liabilities and equity								
Financial liabilities at fair value through profit or loss	63	–	5	–	17	85	12	97
Deposits from banks	121	–	23	–	130	274	246	520
Deposits from companies and other similar entities	2,474	–	14	–	607	3,095	6,995	10,090
Deposits from individuals	8,508	4	298	–	1,647	10,457	2,738	13,195
Borrowings	331	424	–	–	7	762	997	1,759
Provisions for liabilities and charges	15	1	–	–	–	16	160	176
Other liabilities	14	11	–	–	1	26	266	292
Subordinated liability	837	–	–	–	–	837	–	837
Equity	–	–	–	–	–	–	4,450	4,450
Total liabilities and equity	**12,363**	**440**	**340**	**–**	**2,409**	**15,552**	**15,864**	**31,416**
Currency gap	**(5,457)**	**7,674**	**(290)**	**27**	**(872)**	**1,082**	**(1,082)**	**–**

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 from 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)

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 RZB/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 member responsible for Risk management, system of responsibilities for managing operational risk is based on three lines of defense which contribute in maintaining an effective Operational Risk Management framework.

The first line of defense is the risk originating units whose business activities give rise to risk. The risk originating units own operational risk.

The second line of defense provides an independent assessment of operational risk, oversight and challenges the first line of defense. The second line of defense is comprised of:

- RBI/RZB Group Chief Risk Officer & RBA Chief Risk Officer – representing the applicable Management Boar 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 defense 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)

- 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 acceptance (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. 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 2016 and 2015:

Group			2016			2015
HRK millions	Carrying amount	Fair value	Unrecognised estimated gains /(losses)	Carrying amount	Fair value	Unrecognised estimated gains /(losses)
Cash and current accounts with banks	3,721	3,721	–	2,637	2,637	–
Obligatory reserve with the Croatian National Bank	1,675	1,675	–	1,977	1,977	–
Financial assets at fair value through profit or loss	2,515	2,515	–	2,291	2,291	–
Placements with and loans to other banks	1,332	1,332	–	955	955	–
Financial assets available for sale	5,217	5,217	–	5,028	5,028	–
Loans and advances to customers	18,504	18,644	140	19,626	19,688	62
Financial investments held to maturity	293	257	(36)	283	243	(40)
Financial liabilities at fair value through profit or loss	(97)	(97)	–	(111)	(111)	–
Deposits from banks	(441)	(441)	–	(246)	(246)	–
Deposits from companies and other similar entities	(9,891)	(9,879)	12	(8,794)	(8,782)	12
Deposits from individuals	(14,253)	(14,233)	20	(14,846)	(14,911)	(65)
Borrowings	(3,992)	(3,983)	9	(4,251)	(4,242)	9
Subordinated liabilities	(837)	(820)	17	(846)	(810)	36
Total			**162**			**14**

48. Fair value of financial instruments (continued)

Bank			2016			2015
HRK millions	Carrying amount	Fair value	Unrecognised estimated gains / (losses)	Carrying amount	Fair value	Unrecognised estimated gains / (losses)
Cash and current accounts with banks	3,717	3,717	–	2,633	2,633	–
Obligatory reserve with the Croatian National Bank	1,675	1,675	–	1,977	1,977	–
Financial assets at fair value through profit or loss	2,151	2,151	–	1,954	1,954	–
Placements with and loans to other banks	1,384	1,385	1	991	990	(1)
Financial assets available for sale	4,921	4,921	–	4,744	4,744	–
Loans and advances to customers	16,213	16,379	166	17,387	17,564	177
Financial liabilities at fair value through profit or loss	(97)	(97)	–	(111)	(111)	–
Deposits from banks	(520)	(520)	–	(336)	(336)	–
Deposits from companies and other similar entities	(10,090)	(10,085)	5	(9,273)	(9,259)	14
Deposits from individuals	(13,195)	(13,175)	20	(13,691)	(13,672)	19
Borrowings	(1,759)	(1,750)	9	(1,802)	(1,793)	9
Subordinated liabilities	(837)	(820)	17	(846)	(810)	36
Total			**218**			**254**

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 (tabulation, unlike related notes, does not include accrued interest):

- 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).

48. Fair value of financial instruments (continued)

Group			2016				2015
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	1,842	40	–	**1,882**	1,655	53	–	**1,708**
– Equity securities	5	–	–	**5**	6	–	2	**8**
– Derivative financial assets	–	108	–	**108**	–	70	–	**70**
Financial assets designated at fair value through profit or loss								
– Debt securities	363	115	3	**481**	321	160	3	**484**
– Equity instruments	2	–	–	**2**	1	–	–	**1**
– Investments in investments fund managed by related and third parties	9	–	–	**9**	1	–	–	**1**
Financial assets available for sale								
– Debt securities	5,144	–	–	**5,144**	4,924	–	–	**4,924**
– Equity securities	8	17	4	**29**	4	–	60	**64**
Total	**7,373**	**280**	**7**	**7,660**	**6,912**	**283**	**65**	**7,260**
Financial liabilities at fair value through profit or loss								
– Derivative financial liabilities	(4)	(92)	–	(96)	–	(109)	–	(109)
Total	**(4)**	**(92)**	**–**	**(96)**	**–**	**(109)**	**–**	**(109)**

48. Fair value of financial instruments (continued)

Bank HRK millions	Level 1	Level 2	Level 3	2016 Total	Level 1	Level 2	Level 3	2015 Total
Financial assets at fair value through profit or loss								
Trading instruments								
– Debt securities	1,842	40	–	1,882	1,655	53	–	1,708
– Equity securities	5	–	–	5	6	–	2	8
– Derivative financial assets	–	116	–	116	–	80	–	80
Financial assets designated at fair value through profit or loss								
– Debt securities	97	25	3	125	65	77	3	145
Financial assets available for sale								
– Debt securities	4,851	–	–	4,851	4,644	–	–	4,644
– Equity securities	8	17	4	29	4	–	60	64
Total	6,803	198	7	7,008	6,374	210	65	6,649
Financial liabilities at fair value through profit or loss								
– Derivative financial liabilities	(4)	(92)	–	(96)	–	(109)	–	(109)
Total	(4)	(92)	–	(96)	–	(109)	–	(109)

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

Group/Bank	Trading instruments	Financial assets designated at fair value through profit or loss	Financial assets available for sale
	Equity instruments	Debt securities issued by companies	Equity securities
At 1 January 2015	2	3	5
Gains and losses in other comprehensive income	–	–	55
At 31 December 2015	2	3	60
Gains and losses in other comprehensive income	(2)	–	(53)
Reclassification to Level 1	–	–	(3)
At 31 December 2016	–	3	4

48. Fair value of financial instruments (continued)

Group		Fair value 2016	Fair value 2015	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 102 million Liabilities HRK 34 million	Assets HRK 57 million Liabilities HRK 52 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)	Futures	Assets – Liabilities HRK 4 million	Assets – Liabilities –	Level 1	Quoted prices in an active market	not applicable	not applicable
	Interest rate swaps; forward rate agreements	Assets HRK 6 million Liabilities HRK 51 million	Assets HRK 13 million HRK 50 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 1,759 million	Assets HRK 1,577 million	Level 1	Quoted prices in an active market	not applicable	not applicable
	Bonds issued by banks	Assets HRK 337 million	Assets HRK 348 million	Level 1	Quoted prices in an active market	not applicable	not applicable
	Securities issued by companies	Assets HRK 76 million	Assets HRK 43 million	Level 1	Quoted prices in an active market	not applicable	not applicable
	Securities issued by companies	Assets HRK 48 million	Assets HRK 94 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.
	Treasury bills issued by Ministry of Finance	Assets HRK 34 million	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 106 million	Assets HRK 119 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 2016	Fair value 2015	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
4) Equity instruments (Note 8)	Equity securities corporate	Assets HRK 5 million	Assets HRK 7 million	Level 1	Quoted prices in an active market.	not applicable	not applicable
	Equity securities corporate	Assets HRK 2 million	Assets –	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 otherfinancial institutions	Assets –	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 9 million	Assets HRK 1 million	Level 1	Quoted prices in an active market	not applicable	not applicable
6) Financial assets available for sale (Note 10)	Equity securities corporate	Assets HRK 8 million	Assets HRK 4 million	Level 1	Quoted prices in an active market.	not applicable	not applicable
	Equity securities corporate	Assets HRK 17 million	Assets 2 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 4 million	Assets HRK 60 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 dana.
	Domestic and foreign government bonds	Assets HRK 3,641 million	Assets HRK 3,334 million	Level 1	Quoted prices in an active market.	not applicable	not applicable
	Bonds issued by banks	Assets HRK 1,040 million	Assets HRK 908 million	Level 1	Quoted prices in an active market.	not applicable	Not applicable
	Treasury bills issued by Ministry of Finance	Assets HRK 463 million	Assets HRK 682 million	Level 1	Quoted prices in an active market.	not applicable	Not applicable

48. Fair value of financial instruments (continued)

Bank		Fair value 2016	Fair value 2015	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 45)	Forward foreign exchange contracts; cross currency swaps; fx options	Assets HRK 103 million Liabilities HRK 34 million	Assets HRK 57 million Liabilities HRK 52 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)	Futures	Assets – Liabilities HRK 4 million	Assets HRK 3 million Liabilities –	Level 1	Quoted prices in an active market.	not applicable	not applicable
	Interest rate swaps, forward rate agreements	Assets HRK 13 million Liabilities HRK 51 million	Assets HRK 19 million Liabilities HRK 50 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 1,493 million	Assets HRK 1,321 million	Level 1	Quoted prices in an active market.	not applicable	not applicable
	Bonds issued by banks	Assets HRK 337 million	Assets HRK 348 million	Level 1	Quoted prices in an active market.	not applicable	not applicable
	Securities issued by companies	Assets HRK 76 million	Assets HRK 43 million	Level 1	Quoted prices in an active market.	not applicable	not applicable
	Securities issued by companies	Assets HRK 24 million	Assets HRK 77 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.
	Treasury bills issued by Ministry of Finance	Assets HRK 34 million	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 40 million	Assets HRK 53 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 2016	Fair value 2015	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
4) Equity instruments (Note 7)	Equity securities companies	Assets HRK 5 million	Assets HRK 6 million	Level 1	Quoted bid prices in an active market.	not applicable	not applicable
	Equity securities Other financial institutions	Assets –	Assets HRK 2 million	Level 3	Valuation based on balance sheet items.	Haircut applied on the value of securities investments.	The change in the amount of haircuts applied would cause the change of valuation result. The haircuts applied also depend on the quality of security and real-estate investments present in the fund's balance sheet.
5) Financial assets available for sale (Note 10)	Domestic and foreign government bonds	Assets HRK 3,348 million	Assets HRK 3,054 million	Level 1	Quoted prices in an active market.	Haircut applied on the value of real estate investments.	not applicable
	Bonds issued by banks	Assets HRK 1,040 million	Assets HRK 908 million	Level 1	Quoted prices in an active market.	not applicable	not applicable
	Treasury bills issued by Ministry of Finance	Assets HRK 463 million	Assets HRK 682 million	Level 1	Quoted prices in an active market.	not applicable	not applicable
	Equity securities	Assets HRK 8 million	Assets HRK 4 million	Level 1	Quoted prices in an active market	not applicable	not applicable
	Equity securities	Assets HRK 17 million	Assets –	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 4 million	Assets HRK 60 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.

48. 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 2016	Group 2015	Bank 2016	Bank 2015
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)	408	290	147	147
Net profit for the period	–	–	–	–
Legal, statutory and other reserves	173	173	173	173
Non–controlling interests	–	68	–	–
Deductions, in accordance with the CNB regulations				
Intangible assets	(220)	(205)	(214)	(199)
Value adjustment due to prudent valuations	(22)	(7)	(21)	(6)
Goodwill	(27)	–	–	–
Unrealised losses on financial assets available for sale	(13)	(19)	(11)	(18)
Deductions for investments in banks and financial institutions	(23)	(23)	(23)	(23)
Total Common Equity Tier 1 capital	**3,909**	**3,910**	**3,684**	**3,707**
Tier 2 capital	**753**	**840**	**753**	**840**
Total Own Funds	**4,662**	**4,750**	**4,437**	**4,547**
Total risk-weighted assets	**23,085**	**24,608**	**20,004**	**21,516**
Capital adequacy ratio	**20.19%**	**19.30%**	**22.18%**	**21.13%**

During the year 2016, 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 was:

HRK millions	Group 2016	Group 2015	Bank 2016	Bank 2015
Exposure values				
Securities financing transactions	744	218	744	218
Derivatives: Market value and add-to - market method	237	170	246	180
Off balance sheet exposure	1,857	3,188	1,846	3,225
Other asset	34,108	33,988	30,584	30,460
	36,946	**37,564**	**33,420**	**34,083**
Tier 1 capital	**3,909**	**3,910**	**3,684**	**3,707**
Leverage ratio	**10.58%**	**10.41%**	**11.02%**	**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	2016 Unaudited	2015 Unaudited
1. Interest income	1,305	1,448
2. (Interest expenses)	(369)	(483)
3. Net interest income	**936**	**965**
4. Commission and fee income	695	706
5. (Commission and fee expenses)	(249)	(238)
6. Net commission and fee income	**446**	**468**
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	–	–
8. Gain/(loss) from trading activities	196	31
9. Gain/(loss) from embedded derivatives	1	–
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit and loss	27	1
11. Gain/(loss) from financial assets available for sale	80	10
12. Gain/(loss) from financial assets held to maturity	27	27
13. Gain/(loss) from hedging transactions	(1)	–
14. Income from investments in subsidiaries, affiliated companies and joint ventures	–	–
15. Income from other equity investments	1	–
16. Gain/(loss) from foreign exchange differences	(15)	125
17. Other income	368	407
18. Other expenses	(129)	(74)
19. General and administrative expenses, depreciation and amortization	(1,133)	(1,174)
20. Net income before value adjustments and provisions for losses	**804**	**786**
21. Expenses from value adjustments and provisions for losses	(109)	(968)
22. Profit/(loss) before tax	**695**	**(182)**
23. Income tax	(160)	32
24. Current year profit/(loss)	**535**	**(150)**
25. Earnings per share	HRK 147	HRK (43)

Appendix to the Income Statement

	2016	2015
Current year profit/(loss)	535	(150)
Attributable to the parent company shareholders	535	(156)
Non-controlling interest	–	6

Appendix I

Supplementary schedules for the Croatian National Bank (continued)

Consolidated balance sheet

HRK millions	2016 Unaudited	2015 Unaudited
Assets		
1. Cash and deposits with CNB	5,337	4,462
1.1. Cash	712	762
1.2. Deposits with CNB	4,625	3,700
2. Deposits with banking institutions	1,154	969
3. Treasury bills of Ministry of Finance and treasury bills of CNB	105	119
4. Securities and other financial instruments held for trading	1,853	1,672
5. Securities and other financial instruments available for sale	5,173	4,989
6. Securities and other financial instruments held to maturity	287	277
7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	420	410
8. Derivative financial assets	115	75
9. Loans to financial institutions	290	174
10. Loans to other clients	18,369	19,506
11. Investments in subsidiaries, affiliated companies and joint ventures	–	–
12. Repossessed assets	78	86
13. Tangible and intangible assets (minus depreciation and amortisation)	1,765	1,702
14. Interests, fees and other assets	436	647
A. Total assets	**35,382**	**35,088**
Liabilities and equity		
1. Borrowings from financial institutions	2,396	2,641
1.1. Short-term borrowings	889	1,534
1.2. Long-term borrowings	1,507	1,107
2. Deposits	24,114	23,537
2.1. Deposits on giro-accounts and current accounts	7,541	6,468
2.2. Savings deposits	5,359	4,502
2.3. Term deposits	11,214	12,567
3. Other borrowings	1,582	1,602
3.1. Short-term borrowings	354	341
3.2. Long-term borrowings	1,228	1,261
4. Derivative financial liabilities and other trading financial liabilities	94	107
5. Issued debt securities	–	–
5.1. Issued short-term debt securities	–	–
5.2. Issued long-term debt securities	–	–
6. Issued subordinated instruments	831	840
7. Issued subordinated debt	–	–
8. Interests, fees and other liabilities	1,467	1,949
B. Total liabilities	**30,484**	**30,676**

Appendix I

Supplementary schedules for the Croatian National Bank (continued)

Consolidated balance sheet (continued)

HRK millions	2016 Unaudited	2015 Unaudited
Equity		
1. Share capital	3,633	3,633
2. Minority participation	–	68
3. Current year gain/loss	535	(156)
4. Retained earnings/(loss)	483	586
5. Legal reserves	181	180
6. Statutory and other capital reserves	8	19
7. Unrealised gain /(loss) from available for sale fair value adjustment	58	82
C. Total equity	**4,898**	**4,412**
D. Total liabilities and equity	**35,382**	**35,088**

Appendix to the Balance Sheet

	2016	2015
Total equity	4,898	4,412
Equity distributable to parent company shareholders	4,898	4,344
Minority participation	–	68

Appendix I

Supplementary schedules for the Croatian National Bank (continued)

Consolidated cash flow statement

HRK millions	2016 Unaudited	2015 Unaudited
Operating activities		
1.1. Gain/(loss) before tax	695	(182)
1.2. Value adjustments and provisions for losses	(522)	931
1.3. Depreciation and amortization	191	195
1.4. Net unrealised (gain)/loss from financial assets and liabilities at fair value through profit and loss	(36)	(112)
1.5. Gain/(loss) from tangible assets sale	–	–
1.6. Other (gains)/losses	(1,047)	(1,152)
1. Operating cash flow before operating assets movements	**(719)**	**(320)**
2.1. Deposits with CNB	315	351
2.2. Treasury bills of Ministry of Finance and treasury bills of CNB	14	144
2.3. Deposits with banking institutions and loans to financial institutions	(28)	26
2.4. Loans to other clients	908	1,938
2.5. Securities and other financial instruments held for trading	(155)	(53)
2.6. Securities and other financial instruments available for sale	(220)	(1,640)
2.7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	(24)	573
2.8. Other operating assets	1,241	73
2. Net (increase)/decrease in operating assets	**2,051**	**1,412**
Increase/(decrease) in operating liabilities		
3.1. Demand deposits	1,073	485
3.2. Savings and term deposits	(417)	(527)
3.3. Derivative financial liabilities and other trading liabilities	813)	(139)
3.4. Other liabilities	(179)	1,264
3. Net increase/(decrease) in operating liabilities	**464**	**1,083**
4. Net cash flow from operating activities before profit tax paying	**1,796**	**2,175**
5. Paid profit tax	(33)	(48)
6. Net inflows/(outflows) of cash from operating activities	**1,763**	**2,127**
Investing activities		
7.1. Receipts from sale/(payments for purchasing) tangible and intangible assets	(255)	(175)
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	(11)	64
7.4. Received dividends	–	–
7.5. Other receipts/(payments) form investment activities	152	–
7. Net cash flow from investing activities	**(114)**	**(111)**

Appendix I

Supplementary schedules for the Croatian National Bank (continued)

Consolidated cash flow statement (continued)

HRK millions	2016 Unaudited	2015 Unaudited
Financial activities		
8.1. Net increase/(decrease) in borrowings	(231)	(1,081)
8.2. Net increase/(decrease) in issued debt securities	–	–
8.3. Net increase/(decrease) in subordinated and subordinated debt	–	383
8.4. Receipts from issued share capital	–	–
8.5. (Dividends paid)	–	(638)
8.6. Other receipts/(payments) from financial activities	–	–
8. Net cash flow from financial activities	(231)	(1,336)
9. Net increase/(decrease) in cash and cash equivalents	1,418	680
10. Effects from foreign exchange rates changes on cash and cash equivalents	27	12
11. Net increase/(decrease) in cash and cash equivalents	1,445	692
12. Cash and cash equivalents at the beginning of the year	3,523	2,830
13. Cash and cash equivalents at the end of the year	4,968	3,522

Appendix I

Supplementary schedules for the Croatian National Bank (continued)

Consolidated statement of Changes in Equity

All amounts in HRK millions	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/ loss	Unrealised gain/ losses from financial assets available for sale fair value adjustment	Minority participation	Total capital and reserves
Unaudited								
1. Balance at 1 January 2016	**3,633**	**–**	**199**	**430**	**–**	**82**	**68**	**4,412**
2. Changes of Accounting policies and error corrections	–	–	–	–	–	–	–	–
3. Restated current year balance	**3,633**	**–**	**199**	**430**	**–**	**82**	**68**	**4,412**
4. Sale of financial assets available for sale	–	–	–	–	–	–	–	–
5. Fair value changes of financial assets available for sale	–	–	–	–	–	(24)	–	(24)
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	**–**	**–**	**–**	**–**	**–**	**(24)**	**–**	**(24)**
9. Current year gain/(loss)	–	–	–	–	535	–	–	535
10. Total income and expenses recognised for the current year	**–**	**–**	**–**	**–**	**535**	**–**	**–**	**535**
11. Increase/ (decrease) in share capital	–	–	–	–	–	–	–	–
12. Buying/(sale) of treasury shares	–	–	–	–	–	–	–	–
13. Other changes	–	–	(11)	54	–	–	(68)	(25)
14. Transfer to reserves	–	–	1	(1)	–	–	–	–
15. Dividends paid	–	–	–	–	–	–	–	–
16. Distribution of profit	**–**	**–**	**(10)**	**53**	**–**	**–**	**(68)**	**(25)**
17. Balance at 31 December 2016	**3,633**	**–**	**189**	**483**	**535**	**58**	**–**	**4,898**

Appendix I

Supplementary schedules for the Croatian National Bank (continued)

Consolidated statement of changes in equity (continued)

All amounts in HRK millions	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/ loss	Unrealised gain/ losses from financial assets available for sale fair value adjustment	Minority participation	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 II

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

The following reconciliation tables are prepared in light of different classifications of line items in the statutory financial statements and the CNB Schedules.

Reconciliation for the income statement for years ended 31 December 2016 and 2015:

HRK millions	2016 CNB schedules	2016 Statutory financial statements	2016 Difference	2015 CNB schedules	2015 Statutory financial statements	2015 Difference
Interest and interest similar income	1,305	1,305	–	1,448	1,452	(4)
Interest and interest similar expenses	(369)	(317)	(52)	(483)	(419)	(64)
Net interest income	**936**	**988**	**(52)**	**965**	**1,033**	**(68)**
Commission and fee income	695	694	1	706	704	2
Commission and fee expenses	(249)	(257)	8	(238)	(242)	4
Net commission and fee income	**446**	**437**	**9**	**468**	**462**	**6**
Net trading gain	224	315	(91)	32	152	(120)
Gain/(loss) from financial assets available for sale	80	–	80	10	–	10
Gain/(loss) from financial investments held to maturity	27	–	27	27	–	27
Income from other equity investments	–	–	–	–	–	–
Net foreign exchange differences	(15)	–	(15)	125	–	125
Other operating income	368	322	46	407	343	64
Total other income	**684**	**637**	**47**	**601**	**495**	**106**
General and administrative expenses, depreciation and amortization	(1,133)	(1,877)	744	(1,174)	(1,231)	57
Expenses from value adjustments and provisions for losses	(109)	510	(619)	(968)	(941)	(27)
Other operating expenses	(129)	–	(129)	(74)	–	(74)
Total other expenses	**(1,371)**	**(1,367)**	**(4)**	**(2,216)**	**(2,172)**	**(44)**
Profit before tax	**695**	**695**	**–**	**(182)**	**(182)**	**–**
Income tax	(160)	(160)	–	32	32	–
Net profit for the year	**535**	**535**	**–**	**(150)**	**(150)**	**–**
Earnings per share	**HRK 147**	**HRK 147**	**–**	**HRK (43)**	**HRK (43)**	**–**

Appendix II

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

- Interest and similar 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 2016 and 31 December 2015:

HRK millions	2016 CNB schedules	2016 Statutory financial statements	2016 Difference	2015 CNB schedules	2015 Statutory financial statements	2015 Difference
Assets						
Cash and deposits with CNB	5,337	5,396	(59)	4,462	4,614	(152)
Treasury bills of Ministry of Finance and CNB	105	–	105	119	–	119
Financial assets at FVTPL	2,273	2,515	(242)	2,082	2,291	(209)
Financial investments held to maturity	287	293	(6)	277	283	(6)
Placements with and loans to other banks	1,154	1,332	(178)	969	955	14
Loans and receivables	18,659	18,504	155	19,680	19,626	54
Financial assets available for sale	5,173	5,217	(44)	4,989	5,028	(39)
Repossessed assets	78	–	78	86	–	86
PPE and intangible assets	1,765	1,736	29	1,702	1,677	25
Derivative financial assets	115	–	115	75	–	75
Deferred tax asset	–	86	(86)	–	206	(206)
Other assets	436	285	151	647	378	269
Total assets	**35,382**	**35,364**	**18**	**35,088**	**35,058**	**30**
Liabilities						
Due to other banks and deposits from customers	28,092	28,577	(485)	27,780	28,137	(357)
Long-term issued debt securities	–	–	–	–	–	–
Provisions for liabilities and charges	–	187	(187)	–	804	(804)
Derivative financial liabilities and other trading financial liabilities	94	97	(3)	107	111	(4)
Subordinated debt	831	837	(6)	840	846	(6)
Other liabilities	1,467	776	691	1,949	766	1,183
Total liabilities	**30,484**	**30,474**	**10**	**30,676**	**30,664**	**12**

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 2016 and 31 December 2015:

HRK millions	2016 CNB schedules	2016 Statutory financial statements	2016 Difference	2015 CNB schedules	2015 Statutory financial statements	2015 Difference
Equity						
Share capital	3,633	3,633	–	3,633	3,633	–
Net (loss)/profit for the year	535	535	–	(156)	(156)	–
Retained earnings/ (loss carried forward)	483	483	–	586	586	–
Hedging reserve	–	–	–	–	–	–
Unrealised gain/(loss) from available for sale fair value adjustment	58	58	–	82	82	–
Reserves	189	181	8	199	181	18
Total equity	**4,898**	**4,890**	**8**	**4,344**	**4,326**	**18**
Minority interest	**–**	**–**	**–**	**68**	**68**	**–**
Total liabilities and equity	**35,382**	**35,364**	**18**	**35,088**	**35,058**	**30**

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 18 million as of 31 December 2016 (2015: HRK 30 millions) is the result of different presentation of deferred tax assets and deferred 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 Placements with and loans to other banks to Cash and deposits with CNB.

- 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 – relates to the difference in CNB schedules relates to loans and advances to credit institutions reclassified from Placements with and loans to other banks, while the accrued interest is presented 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 CNB schedules, restricted deposits and other liabilities (deposits on the escrow account, investments in equity instruments of domestic corporate issuers) and guarantees of Republic of Croatia have been reclassified to Other liabilities from Deposits from other banks and customers.

- 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 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 2016	31 December 2015
1 EUR = HRK 7.557787	1 EUR = HRK 7.635047
1 USD = HRK 7.168536	1 USD = HRK 6.991801

Consolidated statement of financial position as at 31 December

Group	2016 EUR millions	2016 USD millions	2015 EUR millions	2015 USD millions
Assets				
Cash and current account with banks	492	519	345	377
Obligatory reserve with the Croatian National Bank	222	234	259	283
Financial assets at fair value through profit or loss	333	351	300	328
Placements with and loans to other banks	176	186	125	137
Financial assets available for sale	690	728	659	719
Loans and advances to customers	2,448	2,581	2,570	2,807
Financial investments held to maturity	39	41	37	40
Property, plant and equipment	198	208	194	212
Intangible assets	32	33	26	28
Deferred tax asset	11	12	27	29
Current tax asset	–	–	1	1
Other assets	38	40	49	54
Total assets	**4,679**	**4,933**	**4,592**	**5,015**

Consolidated statement of financial position as at 31 December

Group	2016 EUR millions	2016 USD millions	2015 EUR millions	2015 USD millions
Liabilities				
Financial liabilities at fair value through profit or loss	13	13	15	16
Deposits from banks	58	62	32	35
Deposits from companies and other similar entities	1,309	1,380	1,152	1,258
Deposits from individuals	1,886	1,988	1,944	2,123
Borrowings	528	557	557	608
Provisions for liabilities and charges	25	26	105	115
Other liabilities	102	108	100	110
Subordinated liabilities	111	117	111	121
Total liabilities	**4,032**	**4,251**	**4,016**	**4,386**
Equity				
Share capital	479	505	474	518
Share premium	2	2	2	2
Capital reserve	–	–	–	–
Legal reserve	24	25	24	26
Fair value reserve	8	8	11	12
Retained earnings	134	142	56	61
Total equity attributable to equity holders of the parent	**647**	**682**	**567**	**619**
Non-controlling interest	–	–	9	10
Total equity	**647**	**682**	**576**	**629**
Total liabilities and equity	**4,679**	**4,933**	**4,592**	**5,015**

Consolidated statement of comprehensive income for the year ended 31 December

Group	2016 EUR millions	2016 USD millions	2015 EUR millions	2015 USD millions
Interest income	173	182	190	208
Interest expense	(42)	(44)	(55)	(60)
Net interest income	**131**	**138**	**135**	**148**
Fee and commission income	92	97	92	101
Fee and commission expense	(34)	(36)	(32)	(35)
Net fee and commission income	**58**	**61**	**60**	**66**
Net trading gains and gains from financial assets available for sale	42	44	20	22
Other operating income	42	45	45	49
Dealing and other income	**84**	**89**	**65**	**71**
Operating income	**273**	**288**	**260**	**285**
Operating expenses	(248)	(262)	(161)	(176)
Impairment losses	(14)	(15)	(42)	(46)
Provisions for liabilities and charges	81	86	(81)	(89)
Profit/(Loss) before tax	**92**	**97**	**(24)**	**(26)**
Income tax expense	(21)	(22)	4	5
Profit/(Loss) before tax	**71**	**75**	**(20)**	**(21)**
Other comprehensive income				
Income that are or may be reclassified to pofit or loss				
Net value gain on available for sale financial instruments	(3)	(3)	9	9
Other comprehensive income for the year, net of tax	**(3)**	**(3)**	**9**	**9**
Total comprehensive profit/(loss) for the year	**68**	**72**	**(11)**	**(12)**
Attributable to:				
- Equity holders of the parent	71	75	(21)	(22)
- Non-controlling interest	–	–	1	1
Earning per share attributable to the equity holders of the parent	**EUR 19**	**USD 21**	**EUR (6)**	**USD (6)**

Separate statement of financial position as st 31 December

Bank	2016 EUR millions	2016 USD millions	2015 EUR millions	2015 USD millions
Assets				
Cash and current accounts with banks	492	518	345	377
Obligatory reserve with the Croatian National Bank	222	234	259	283
Financial assets at fair value through profit or loss	285	300	256	279
Placements with and loans to other banks	183	193	130	142
Financial assets available for sale	651	686	621	678
Loans and advances to customers	2,145	2,262	2,277	2,487
Investments in subsidiaries	54	57	48	52
Property, plant and equipment	63	67	60	66
Intangible assets	27	29	25	27
Deferred tax asset	11	11	26	29
Current tax asset	–	–	1	1
Other assets	24	25	36	39
Total assets	**4,157**	**4,382**	**4,084**	**4,460**

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

Bank	2016 EUR millions	2016 USD millions	2015 EUR millions	2015 USD millions
Liabilities				
Financial liabilities at fair value through profit or loss	13	13	14	16
Deposits from banks	69	73	44	48
Deposits from companies and other similar entities	1,335	1,408	1,215	1,326
Deposits from individuals	1,746	1,841	1,793	1,958
Borrowings	233	245	236	258
Provisions for liabilities and charges	23	24	104	113
Other liabilities	38	41	41	45
Subordinated liabilities	111	117	111	121
Total liabilities	**3,568**	**3,762**	**3,558**	**3,885**
Equity				
Share capital	479	505	474	518
Share premium	2	2	2	2
Capital reserve	–	–	–	–
Legal reserve	23	24	23	25
Fair value reserve	5	5	8	9
Retained earnings	80	84	19	21
Total equity	**589**	**620**	**526**	**575**
Total liabilities and equity	**4,157**	**4,382**	**4,084**	**4,460**

Separate statement of comprehensive income for the year ended 31 December

Bank	2016 EUR millions	2016 USD millions	2015 EUR millions	2015 USD millions
Interest income	152	160	167	182
Interest expense	(33)	(35)	(45)	(49)
Net interest income	**119**	**125**	**122**	**133**
Fee and commission income	72	76	73	79
Fee and commission expense	(33)	(34)	(31)	(33)
Net fee and commission income	**39**	**42**	**42**	**46**
Net trading gains and gains from financial assets available for sale	36	37	17	18
Other operating income	12	13	9	10
Dealing and other income	**48**	**50**	**26**	**28**
Operating income	**206**	**217**	**190**	**207**
Operating expenses	(196)	(206)	(108)	(117)
Impairment losses	(14)	(15)	(41)	(45)
Provisions for liabilities and charges	81	86	(82)	(89)
Profit/(Loss) before tax	**77**	**82**	**(41)**	**(44)**
Income tax expense	(16)	(17)	9	10
Profit/(Loss) before tax	**61**	**65**	**(32)**	**(34)**
Other comprehensive income				
Income that are or may be reclassified to pofit or loss				
Net value gain on available for sale financial instruments	(3)	(3)	8	9
Other comprehensive income for the year, net of tax	**(3)**	**(3)**	**8**	**9**
Total comprehensive profit/(loss) for the year	**58**	**62**	**(24)**	**(25)**
Earnings per share	**EUR 17**	**USD 18**	**EUR (9)**	**USD (9)**

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