

# **CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT**

## **Consolidated Interim Condensed Financial Statements for the Period 1 January – 30 June 2017**

Zagreb, August 2017

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Statement of Persons Responsible for Consolidated Interim Condensed Financial Statements  
for the period 1 January – 30 June 2017

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We confirm that, to the best of our knowledge, the Consolidated Interim Condensed Financial Statements of the Croatian Bank for Reconstruction and Development Group set out on pages 9 to 99 have been prepared in accordance with International Accounting Standard 34: "Interim Financial Reporting" applicable for the preparation of interim financial statements, and give a true and fair view of assets, liabilities, financial position, financial performance and cash flows for the reporting period.

Financial statements present materially important items and information. Assessment of the materiality applies to the whole of the financial statements, including the notes.

In determining what information to disclose in financial statements and accompanying notes professional judgement has been applied.

Specified line items can be disaggregated but are presented consistently on aggregated level for all periods. Notes that include significant accounting policies and other explanations are presented in order of items as presented in Statement of profit or loss and other comprehensive income for the period and Statement of financial position according to the structure applicable for financial institutions.



Tamara Perko, MSc

**President of the Management Board**



Valerija Marić

**Assistant Accounting Division  
Executive Director**



Martina Jus

**Member of the Management Board**

Zagreb, 28 August 2017

## Independent auditor's report

To the Owner of Hrvatska banka za obnovu i razvitak

### Opinion

We have audited the condensed separate and consolidated financial statements of Hrvatska banka za obnovu i razvitak ("the Bank") and the Group, which comprise the separate and consolidated statement of financial position as at 30 June 2017, separate and consolidated income statement and the separate and consolidated statement of other comprehensive income, separate and consolidated statement of changes in equity and separate and consolidated cash flow statement for the period then ended, including summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying condensed separate and consolidated financial statements as at 30 June 2017 and for the period then ended are prepared, in all material respects, in accordance with International Accounting Standard 34: "Interim Financial Reporting".

### Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the condensed separate and consolidated financial statements* section of our report. We are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the condensed separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the condensed separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the condensed separate and consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the condensed separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying condensed separate and consolidated financial statements.

## Loan Loss Provisions

Credit impairment is a highly subjective area due to the level of judgement applied by management in determining loan loss provisions.

The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, and expected net selling prices of collaterals. The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions.

The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from estimates of future cash flows and realizable value of collateral, which are unsecured or are subject to potential collateral shortfalls. These are usually part of the Bank's loan placements to corporate debtors. Judgement is applied to determine appropriate parameters and assumptions used to calculate impairment.

High level of uncertainty is also related to models used for impairment calculation for exposures toward financial institutions. Judgement is required to determine whether a loss has been incurred and a slight change in parameters used in the calculation could significantly affect the level of impairment recognized.

Due to the significance of loans and advances (representing 82.5% (2016: 85%) of Total assets of the Bank and 82.5% (2016:85%) of Total assets at the Group level) and the related estimation uncertainty, this is considered a key audit matter.

Our work covered impairment of both Bank's and Group's Receivables from corporate counterparties and Receivables from financial institutions (other banks and leasing companies).

We assessed the design and tested the operating effectiveness of the controls over individual impairment calculations of the Bank's and the Group's Corporate portfolio including the quality of underlying data and systems.

We focused on the measurement of impairment of individually significant credit exposures, including the assessment of whether historic experience is appropriate when assessing the amount of incurred losses in the portfolios. In addition, we also focused on individually significant exposures that are not individually impaired, however, either continued to be, have become, or were at risk of being individually impaired.

In addition we have performed the following substantive procedures for discrete parts of credit portfolio of the Bank and the Group:

### Financial Institutions portfolio

We understood management's basis for determining whether the exposure toward certain financial institutions is impaired and assessed the reasonableness using our understanding of the Bank's and Group's products, lending portfolios and our broader industry knowledge. Considering that due days and due debt do not timely reflect occurrence of default event of financial institutions, the Bank and the Group use internally developed rating model which takes into consideration financial and macro-prudential data of each financial institution. We understood and assessed the model used. Where changes had been made during the year in model parameters and assumptions, we understood the reasons why changes had taken place and used our industry knowledge and experience to evaluate the appropriateness of such changes. We also re-performed the provision calculation for entire portfolio applying our judgement.

#### Corporate portfolio

We assessed the criteria for determining whether an impairment event had occurred and tested a sample of performing loans with characteristics that might imply an impairment event had occurred (including customers experiencing financial difficulties or clients with overdue debts for higher number of days for which impairment loss was not recognized) to assess whether all impairment events had been properly and timely identified by management. For a sample of individually impaired credit exposures within the Corporate portfolio we tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. This included taking into consideration the impact of forbearance as well as the latest developments at the borrower.

We also assessed whether the condensed separate and consolidated financial statement disclosures appropriately reflect the Bank's and the Group's exposure to credit risk and are compliant with the International Accounting Standard 34: "Interim Financial Reporting". Refer to Note 31.2 Credit risk for further details.

#### **Responsibilities of management and Audit Committee for the condensed separate and consolidated financial statements**

Management is responsible for the preparation of the condensed separate and consolidated financial statements in accordance with International Accounting Standard 34: "Interim Financial Reporting", and for such internal control as management determines is necessary to enable the preparation of condensed separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the condensed separate and consolidated financial statements, management is responsible for assessing the Bank's and Group'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 either intends to liquidate the Bank and Group or to cease operations, or has no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Bank's and Group's financial reporting process.

## **Auditor's responsibilities for the audit of the condensed separate and consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the condensed separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 ISAs 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 condensed separate and consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the condensed 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 the Bank's and Group's 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 and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the condensed 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 auditor's report. However, future events or conditions may cause the Bank and Group to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the condensed 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 Audit Committee 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.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the condensed separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Zvonimir Madunić.



Zvonimir Madunić  
Member of the Board and certified auditor  
Radnička cesta 50 (Green Gold), Zagreb  
28 August 2017



Consolidated Interim Condensed Financial Statements of the Group  
Statement of Profit or Loss  
for the period 1 January – 30 June  
(All amounts are expressed in HRK thousand)

	Notes	2017		2016	
		Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Interest income	4	212,930	451,841	209,982	429,026
Interest expense	5	(107,046)	(215,153)	(113,681)	(228,236)
<b>Net interest income</b>		<b>105,884</b>	<b>236,688</b>	<b>96,301</b>	<b>200,790</b>
Fee income		8,851	16,344	9,001	15,126
Fee expense		(793)	(1,677)	(678)	(1,419)
<b>Net fee income</b>		<b>8,058</b>	<b>14,667</b>	<b>8,323</b>	<b>13,707</b>
Net gains/(losses) on financial operations		(4,529)	(7,813)	3,366	(10,791)
Other income		4,405	8,362	3,191	6,829
		<b>113,818</b>	<b>251,904</b>	<b>111,181</b>	<b>210,535</b>
Operating expenses	6	(40,881)	(78,029)	(40,096)	(81,899)
Impairment loss and provisions	7	16,414	(43,125)	(16,492)	(20,958)
<b>Profit before income tax</b>		<b>89,351</b>	<b>130,750</b>	<b>54,593</b>	<b>107,678</b>
Income tax		-	-	-	-
<b>Profit for the period</b>		<b>89,351</b>	<b>130,750</b>	<b>54,593</b>	<b>107,678</b>
<b>Attributable to:</b>					
<b>Equity holders of the parent</b>		<b>89,351</b>	<b>130,750</b>	<b>54,593</b>	<b>107,678</b>

The accompanying selected notes are an integral part of this Statement of Profit or Loss.

Consolidated Interim Condensed Financial Statements of the Group  
Statement of Profit or Loss and Other Comprehensive Income  
for the period 1 January – 30 June  
(All amounts are expressed in HRK thousand)

	2017		2016	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
<b>Profit for the period</b>	<b>89,351</b>	<b>130,750</b>	<b>54,593</b>	<b>107,678</b>
<b>Other comprehensive income</b>				
<b>Items that may be reclassified subsequently to profit or loss:</b>				
Increase in fair value of assets available for sale	5,211	21,763	13,908	32,083
Decrease in fair value of assets available for	(5,347)	(20,156)	(13,787)	(17,063)
Net foreign exchange on available for sale equity instruments	(109)	(517)	(31)	(387)
Transfer of realized gains on assets available for sale to statement of profit or loss	(8,115)	(8,116)	(184)	(254)
Transfer of realized losses on assets available for sale to statement of profit or loss	6,499	6,505	-	-
Deferred tax – other comprehensive income	(24)	(25)	14	(107)
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>(1,885)</b>	<b>(546)</b>	<b>(80)</b>	<b>14,272</b>
<b>Other comprehensive income after income tax</b>	<b>(1,885)</b>	<b>(546)</b>	<b>(80)</b>	<b>14,272</b>
<b>Total comprehensive income after income tax</b>	<b>87,466</b>	<b>130,204</b>	<b>54,513</b>	<b>121,950</b>
<b>Attributable to:</b>				
<b>Equity holders of the parent</b>	<b>87,466</b>	<b>130,204</b>	<b>54,513</b>	<b>121,950</b>

The accompanying selected notes are an integral part of this Statement of Profit or Loss and Other Comprehensive Income.

Consolidated Interim Condensed Financial Statements of the Group  
Statement of Financial Position as of  
(All amounts are expressed in HRK thousand)

	Notes	Jun 30, 2017	Dec 31, 2016
<b>Assets</b>			
Cash on hand and due from banks	8	1,681,291	491,246
Deposits with other banks		1,548	23,872
Loans to financial institutions	9	11,313,502	11,889,111
Loans to other customers	10	11,647,114	11,511,194
Financial assets at fair value through profit or loss		284	286
Assets available for sale	11	3,097,149	3,390,034
Assets held to maturity		1,390	1,422
Investments in associates		-	-
Property, plant and equipment and intangible assets		55,195	57,305
Non-current assets held for sale		17,030	17,230
Other assets		9,338	9,122
<b>Total assets</b>		<b>27,823,841</b>	<b>27,390,822</b>
<b>Liabilities</b>			
Deposits		480,978	142,844
Borrowings	12	15,423,581	13,391,749
Bonds payable	13	1,109,764	3,105,569
Other liabilities		636,853	707,952
<b>Total liabilities</b>		<b>17,651,176</b>	<b>17,348,114</b>
<b>Equity</b>			
Founder's capital		6,959,632	6,959,632
Retained earnings and reserves		2,996,968	2,682,127
Other reserves		73,187	73,733
Profit for the period		130,750	314,841
<b>Total equity attributable to equity holders of the parent</b>		<b>10,160,537</b>	<b>10,030,333</b>
Guarantee fund		12,128	12,375
<b>Total equity</b>		<b>10,172,665</b>	<b>10,042,708</b>
<b>Total liabilities and total equity</b>		<b>27,823,841</b>	<b>27,390,822</b>

The accompanying selected notes are an integral part of this Statement of Financial Position.

Consolidated Interim Condensed Financial Statements of the Group  
Statement of Cash Flows  
for the period 1 January – 30 June  
(All amounts are expressed in HRK thousand)

	Note	2017	2016
<b>Operating activities</b>			
Profit before income tax		130,750	107,678
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation		3,956	3,958
Income tax		25	107
Impairment loss and provisions		43,125	20,958
Accrued interest		(64,118)	(78,113)
Deferred fees		(7,715)	(2,585)
<i>Operating profit before working capital changes</i>		106,023	52,003
<i>Changes in operating assets and liabilities:</i>			
Net decrease in deposits with other banks, before provision for impairment		22,570	196,210
Net decrease in loans to financial institutions, before provision for impairment		613,697	618,062
Net (increase) in loans to other customers, before provision for impairment		(246,516)	(758,554)
Net (gain) on financial assets at fair value through profit or loss		(3)	(89)
Net realised (gain) on assets available for sale		(1,616)	(254)
Decrease/(increase) of discount in assets available for sale, assets held to maturity and bonds payable		1,079	(1,058)
Net (decrease)/increase in non-current assets held for sale		212	(15)
Net (increase) in other assets, before provision for impairment		(395)	(2,571)
Net increase in deposits from banks and companies		338,134	49,508
Net (decrease) in other liabilities, before provisions		(55,174)	(70,709)
<b>Net cash provided by operating activities</b>		<b>778,011</b>	<b>82,533</b>
<b>Investment activities</b>			
(Purchase) of financial assets at fair value through profit or loss		-	(4,570)
Sale of financial assets at fair value through profit or loss		-	3,821
Net (purchase) of assets available for sale		(941,243)	(1,460,805)
Sale of assets available for sale		1,215,201	863,825
Net (purchase) of property, plant and equipment and intangible assets		(1,814)	(515)
<b>Net cash provided by/(used in) investment activities</b>		<b>272,144</b>	<b>(598,244)</b>
<b>Financing activities</b>			
Increase in founder's capital		-	-
Increase in borrowings – withdrawn funds		3,154,491	1,102,744
(Decrease) in borrowings – repayments of principal		(823,167)	(453,307)
(Decrease) in bonds payable – repayment		(1,852,051)	-
<b>Net cash provided by financing activities</b>		<b>479,273</b>	<b>649,437</b>
<b>Effect of foreign currency to cash and cash equivalents</b>			
Net foreign exchange		(340,595)	(205,521)
<b>Net effect</b>		<b>(340,595)</b>	<b>(205,521)</b>
Net increase/(decrease) in cash and cash equivalents		1,188,833	(71,795)
Balance as of 1 January, before provisions		494,325	486,743
Net increase/(decrease) in cash		1,188,833	(71,795)
<b>Balance as of 30 June, before provisions</b>	<b>8</b>	<b>1,683,158</b>	<b>414,948</b>
<b>Additional note - Operational cash flows</b>			
Interest paid		294,418	311,376
Interest received		386,192	356,307

The accompanying selected notes are an integral part of this Statement of Cash Flows.

Consolidated Interim Condensed Financial Statements of the Group  
Statement of Changes in Equity  
for the period 1 January – 30 June  
(All amounts are expressed in HRK thousand)

	Founder's capital	Retained earnings and reserves	Other reserves	Net profit for the period	Total equity
<b>Balance as of 1 January 2016</b>	<b>6,926,632</b>	<b>2,475,862</b>	<b>43,283</b>	<b>206,265</b>	<b>9,652,042</b>
Profit for the period	-	-	-	107,678	<b>107,678</b>
Other comprehensive income	-	-	14,272	-	<b>14,272</b>
Total comprehensive income	-	-	14,272	107,678	<b>121,950</b>
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2015 to retained earnings	-	206,265	-	(206,265)	-
<b>Balance as of 30 June 2016</b>	<b>6,926,632</b>	<b>2,682,127</b>	<b>57,555</b>	<b>107,678</b>	<b>9,773,992</b>
<b>Balance as of 1 January 2017</b>	<b>6,959,632</b>	<b>2,682,127</b>	<b>73,733</b>	<b>314,841</b>	<b>10,030,333</b>
Profit for the period	-	-	-	130,750	<b>130,750</b>
Other comprehensive income	-	-	(546)	-	<b>(546)</b>
Total comprehensive income	-	-	(546)	130,750	<b>130,204</b>
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2016 to retained earnings	-	314,841	-	(314,841)	-
<b>Balance as of 30 June 2017</b>	<b>6,959,632</b>	<b>2,996,968</b>	<b>73,187</b>	<b>130,750</b>	<b>10,160,537</b>

The accompanying selected notes are an integral part of this Statement of Changes in Equity.

Unconsolidated Interim Condensed Financial Statements of the Bank  
Statement of Profit or Loss  
for the period 1 January – 30 June  
(All amounts are expressed in HRK thousand)

		2017		2016	
	Notes	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Interest income	4	212,509	451,012	209,556	428,189
Interest expense	5	(107,046)	(215,153)	(113,681)	(228,236)
<b>Net interest income</b>		<b>105,463</b>	<b>235,859</b>	<b>95,875</b>	<b>199,953</b>
Fee income		8,215	15,060	8,443	14,020
Fee expense		(793)	(1,677)	(678)	(1,419)
<b>Net fee income</b>		<b>7,422</b>	<b>13,383</b>	<b>7,765</b>	<b>12,601</b>
Net gains/(losses) on financial operations		(4,483)	(7,574)	3,226	(10,816)
Other income		2,926	4,970	1,514	3,547
		<b>111,328</b>	<b>246,638</b>	<b>108,380</b>	<b>205,285</b>
Operating expenses	6	(38,642)	(74,132)	(37,507)	(77,050)
Impairment loss and provisions	7	16,419	(43,150)	(16,550)	(21,000)
<b>Profit before income tax</b>		<b>89,105</b>	<b>129,356</b>	<b>54,323</b>	<b>107,235</b>
Income tax		-	-	-	-
<b>Profit for the period</b>		<b>89,105</b>	<b>129,356</b>	<b>54,323</b>	<b>107,235</b>
<b>Attributable to:</b>					
<b>Equity holders of the parent</b>		<b>89,105</b>	<b>129,356</b>	<b>54,323</b>	<b>107,235</b>

The accompanying selected notes are an integral part of this Statement of Profit or Loss.

Unconsolidated Interim Condensed Financial Statements of the Bank  
Statement of Profit or Loss and Other Comprehensive Income  
for the period 1 January – 30 June  
(All amounts are expressed in HRK thousand)

	2017		2016	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
<b>Profit for the period</b>	<b>89,105</b>	<b>129,356</b>	<b>54,323</b>	<b>107,235</b>
<b>Other comprehensive income</b>				
<b>Items that may be reclassified subsequently to profit or loss:</b>				
Increase in fair value of assets available for sale	4,706	20,527	13,615	31,114
Decrease in fair value of assets available for sale	(4,986)	(19,056)	(13,573)	(16,793)
Net foreign exchange on available for sale equity instruments	(109)	(517)	(31)	(387)
Transfer of realized gains on assets available for sale to statement of profit or loss	(8,115)	(8,115)	(36)	(90)
Transfer of realized losses on assets available for sale to statement of profit or loss	6,499	6,499	-	-
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>(2,005)</b>	<b>(662)</b>	<b>(25)</b>	<b>13,844</b>
<b>Other comprehensive income after tax</b>	<b>(2,005)</b>	<b>(662)</b>	<b>(25)</b>	<b>13,844</b>
<b>Total comprehensive income after tax</b>	<b>87,100</b>	<b>128,694</b>	<b>54,298</b>	<b>121,079</b>
<b>Attributable to:</b>				
<b>Equity holders of the parent</b>	<b>87,100</b>	<b>128,694</b>	<b>54,298</b>	<b>121,079</b>

The accompanying selected notes are an integral part of this Statement of Profit or Loss and Other Comprehensive Income.

Unconsolidated Interim Condensed Financial Statements of the Bank  
Statement of Financial Position as of  
(All amounts are expressed in HRK thousand)

	Notes	Jun 30, 2017	Dec 31, 2016
<b>Assets</b>			
Cash on hand and due from banks	8	1,680,033	490,695
Deposits with other banks		1,548	23,872
Loans to financial institutions	9	11,313,502	11,889,111
Loans to other customers	10	11,647,114	11,511,194
Assets available for sale	11	3,047,924	3,343,574
Investments in subsidiaries		36,124	36,124
Investments in associates		-	-
Property, plant and equipment and intangible assets		55,126	57,216
Non-current assets held for sale		17,030	17,230
Other assets		7,572	5,900
<b>Total assets</b>		<b>27,805,973</b>	<b>27,374,916</b>
<b>Liabilities</b>			
Deposits		480,978	142,844
Borrowings	12	15,423,581	13,391,749
Bonds payable	13	1,109,764	3,105,569
Other liabilities		625,223	696,774
<b>Total liabilities</b>		<b>17,639,546</b>	<b>17,336,936</b>
<b>Equity</b>			
Founder's capital		6,959,632	6,959,632
Retained earnings and reserves		2,995,656	2,682,131
Other reserves		69,655	70,317
Profit for the period		129,356	313,525
<b>Capital</b>		<b>10,154,299</b>	<b>10,025,605</b>
Guarantee fund		12,128	12,375
<b>Total equity</b>		<b>10,166,427</b>	<b>10,037,980</b>
<b>Total liabilities and total equity</b>		<b>27,805,973</b>	<b>27,374,916</b>

The accompanying selected notes are an integral part of this Statement of Financial Position.



Unconsolidated Interim Condensed Financial Statements of the Bank  
Statement of Cash Flows  
for the period 1 January – 30 June  
(All amounts are expressed in HRK thousand)

	Note	2017	2016
<b>Operating activities</b>			
Profit before income tax		129,356	107,235
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation		3,926	3,923
Impairment loss and provisions		43,150	21,000
Accrued interest		(64,096)	(78,128)
Deferred fees		(7,715)	(2,585)
<i>Operating profit before working capital changes</i>		<i>104,621</i>	<i>51,445</i>
<i>Changes in operating assets and liabilities:</i>			
Net decrease in deposits with other banks, before provision for impairment		22,570	194,210
Net decrease in loans to financial institutions, before provision for impairment		613,697	618,062
Net (increase) in loans to other customers, before provision for impairment		(246,516)	(758,554)
Net realised (gain) on assets available for sale		(1,616)	(90)
Decrease/(increase) of discount in assets available for sale and bonds payable		859	(1,260)
Net (decrease)/increase in non-current assets held for sale		212	(15)
Net (increase) in other assets, before provision for impairment		(2,187)	(2,308)
Net increase in deposits from banks and companies		338,134	49,508
Net (decrease) in other liabilities, before provisions		(55,263)	(70,207)
<b>Net cash provided by operating activities</b>		<b>774,511</b>	<b>80,791</b>
<b>Investment activities</b>			
Net (purchase) of assets available for sale		(934,826)	(1,458,008)
Sale of assets available for sale		1,211,829	862,067
Net (purchase) of property, plant and equipment and intangible assets		(1,804)	(539)
<b>Net cash provided by/(used in) investment activities</b>		<b>275,199</b>	<b>(596,480)</b>
<b>Financing activities</b>			
Increase in founder's capital		-	-
Increase in borrowings – withdrawn funds		3,154,491	1,102,744
(Decrease) in borrowings – repayments of principal		(823,167)	(453,307)
(Decrease) in bonds payable – repayment		(1,852,051)	-
<b>Net cash provided by financing activities</b>		<b>479,273</b>	<b>649,437</b>
<b>Effect of foreign currency to cash and cash equivalents</b>			
Net foreign exchange		(340,857)	(205,753)
<b>Net effect</b>		<b>(340,857)</b>	<b>(205,753)</b>
Net increase/(decrease) in cash and cash equivalents		1,188,126	(72,005)
Balance as of 1 January, before provisions		493,774	486,501
Net increase/(decrease) in cash		1,188,126	(72,005)
<b>Balance as of 30 June, before provisions</b>	<b>8</b>	<b>1,681,900</b>	<b>414,496</b>
<b>Additional note - Operational cash flows</b>			
Interest paid		294,418	311,376
Interest received		385,174	355,235

The accompanying selected notes are an integral part of this Statement of Cash Flows.

Unconsolidated Interim Condensed Financial Statements of the Bank  
Statement of Changes in Equity  
for the period 1 January – 30 June  
(All amounts are expressed in HRK thousand)

	Founder's capital	Retained earnings and reserves	Other reserves	Net profit for the period	Total equity
<b>Balance as of 1 January 2016</b>	<b>6,926,632</b>	<b>2,476,903</b>	<b>41,182</b>	<b>205,228</b>	<b>9,649,945</b>
Profit for the period	-	-	-	107,235	<b>107,235</b>
Other comprehensive income	-	-	13,844	-	<b>13,844</b>
Total comprehensive income	-	-	13,844	107,235	<b>121,079</b>
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2015 to retained earnings	-	205,228	-	(205,228)	-
<b>Balance as of 30 June 2016</b>	<b>6,926,632</b>	<b>2,682,131</b>	<b>55,026</b>	<b>107,235</b>	<b>9,771,024</b>
<b>Balance as of 1 January 2017</b>	<b>6,959,632</b>	<b>2,682,131</b>	<b>70,317</b>	<b>313,525</b>	<b>10,025,605</b>
Profit for the period	-	-	-	129,356	<b>129,356</b>
Other comprehensive income	-	-	(662)	-	<b>(662)</b>
Total comprehensive income	-	-	(662)	129,356	<b>128,694</b>
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2016 to retained earnings	-	313,525	-	(313,525)	-
<b>Balance as of 30 June 2017</b>	<b>6,959,632</b>	<b>2,995,656</b>	<b>69,655</b>	<b>129,356</b>	<b>10,154,299</b>

The accompanying selected notes are an integral part of this Statement of Changes in Equity.

Notes to the Consolidated Interim Condensed Financial Statements include  
significant accounting policies and other explanations  
for the period 1 January – 30 June 2017

(All amounts are expressed in HRK thousand)

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**1. General information**

**1.1. Group:**

The Croatian Bank for Reconstruction and Development („HBOR“ or „the Bank“) is the parent company of the Croatian Bank for Reconstruction and Development Group („Group“) that operates in the Republic of Croatia. The Group primarily performs banking activities and, to the lesser extent, insurance activities and credit risk assessment activities. These Financial Statements include unconsolidated and consolidated financial statements of the Bank and the Group.

The legal address of the Bank is Strossmayerov trg 9, Zagreb, Croatia.

The Group was formed in 2010, the Bank's subsidiary companies are Hrvatsko kreditno osiguranje d.d. and Poslovni info servis d.o.o. that constitute the Hrvatsko kreditno osiguranje Group („HKO Group“).

The Croatian Bank for Reconstruction and Development is the 100% owner of HKO.

The legal address of the HKO Group is Zagreb, Bednjanska 12.

As of 30 June 2017, the Group had 377 employees (30 June 2016: 358 employees).

**1.2. Bank:**

The Croatian Bank for Reconstruction and Development („HBOR“ or „the Bank“) was established on 12 June 1992 under the Act on the Croatian Credit Bank for Reconstruction („HKBO“). In December 1995, the Bank changed its name to Croatian Bank for Reconstruction and Development. The founder and 100% owner of HBOR is the Republic of Croatia.

The Republic of Croatia guarantees HBOR's liabilities unconditionally, irrevocably and on first call, without issuing any particular guarantee.

The responsibility of the Republic of Croatia as guarantor for HBOR's liabilities is joint and unlimited.

With the Act on the Croatian Bank for Reconstruction and Development passed in December 2006, HBOR's founding capital was HRK 7 billion, the payment schedule of which is determined by the State budget.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

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**1. General information (continued)**

**1.2. Bank (continued):**

*Supervisory Board*

In the reporting period, members of the Supervisory Board were as follows:

- Zdravko Marić, DSc, Minister of Finance - ex officio President of the Supervisory Board,
- Martina Dalić, DSc, Deputy Prime Minister and Minister of the Economy, Entrepreneurship and Trade – ex officio Vice President of the Supervisory Board,
- Gabrijela Žalac, Minister of Regional Development and EU Funds – ex officio Member of the Supervisory Board,
- Lovro Kuščević, Minister of Construction and Physical Planning (from 25 May 2017 to 9 June 2017),
- Slaven Dobrović, DSc, Minister of Environmental Protection and Energy (until 25 May 2017),
- Gari Cappelli, Minister of Tourism,
- Tomislav Tolušić, Minister of Agriculture,
- Luka Burilović, President of the Croatian Chamber of Economy – ex officio Member of the Supervisory Board,
- Boris Lalovac, MSc, Member of the Croatian Parliament,
- Ivana Ninčević-Lesandrić, Member of the Croatian Parliament ,
- Grozdana Perić, Chairman of the Finance and Central Budget Committee of the Croatian Parliament.

On 9 June 2017, the Government of the Republic of Croatia passed the Decision on the Appointment of Mr Lovro Kuščević the Minister of Public Administration. By the mentioned Decision, the term of office of the then Minister of Construction and Physical Planning, as a Member of the Supervisory Board of HBOR, terminated, because, pursuant to the Act on HBOR, Minister of Public Administration cannot be appointed to the Supervisory Board of HBOR.

After the reporting period date, on 4 August 2017, the Government of the Republic of Croatia made the decision on the appointment of Predrag Štromar, Deputy Prime Minister of the Republic of Croatia and Minister of Construction and Physical Planning, as a Member of the Supervisory Board of HBOR.

After the reporting period date, by the Decision of the Croatian Parliament of 14 July 2017, Ms Ivana Ninčević-Lesandrić was dismissed from her position of a Member of the Supervisory Board of HBOR from among the Members of the Croatian Parliament. By the same Decision, Ms Božica Makar was appointed a Member of the Supervisory Board of HBOR from among the Members of the Croatian Parliament.

*Management Board*

On the date of preparing these statements, members of the Management Board of HBOR were as follows:

- Tamara Perko, MSc, President of the Management Board and
- Martina Jus, Member of the Management Board.

By the Decision of the Supervisory Board of HBOR of 25 January 2017, Tamara Perko, MSc is appointed the President of the Management Board of HBOR, and Martina Jus the Member of the Management Board of HBOR as of 1 February 2017 until the implementation of procedure for the selection and appointment of members of the Management Board of HBOR pursuant to the Decree on the Criteria for the Implementation of Procedures for Selection and Appointment of Presidents and Members of Management Boards of Companies and Other Legal Entities of Strategic and Special Interest for the Republic of Croatia (Official Gazette Nos. 33/16, 46/16 and 109/16), but for the maximum period of six months.

After the reporting period date, by the Decision of the Supervisory Board of 31 July 2017, Tamara Perko, MSc was appointed President of the Management Board of HBOR and Martina Jus was appointed Member of the Management Board of HBOR both starting from 1 August 2017 until the implementation of the selection and

Notes to the Consolidated Interim Condensed Financial Statements include  
significant accounting policies and other explanations  
for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

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**1. General information (continued)**

**1.2. Bank (continued):**

*Management Board (continued)*

appointment procedure for the Members of the Management Board of HBOR pursuant to the Decree on the Criteria for the Implementation of the Selection and Appointment Procedures of Candidates for Presidents and Members of Management Boards of Companies and other Legal Entities of Strategic and Special Interest for the Republic of Croatia (Official Gazette of the Republic of Croatia, no. 19/17), however the duration of the appointments shall not exceed six months.

As of 30 June 2017, there were 361 employees at the Bank (30 June 2016: 345 employees).

*Audit Committee*

After the termination of the term of office of members of the Supervisory Board, on 4 March 2016 until the day of the reporting period, new members of the Audit Committee have not been appointed and the Supervisory Board currently performs its role.

After the reporting period, by the Decision of the Supervisory Board of 25 July 2017, the following members of the Audit Committee were appointed:

- Prof.DSc. Lajoš Žager, Dean of the Faculty of Economics and Business of the University of Zagreb, acting as the Chairman of the Audit Committee,
- Grozdana Perić, Chairman of the Finance and Central Budget Committee of the Croatian Parliament, acting as the Vice Chairman of the Audit Committee,
- Aurora Volarević, Director of Internal Controls, Audit and Risk in Hrvatski telekom d.d., acting as a Member of the Audit Committee.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

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**1. General information (continued)**

**1.2. Bank (continued):**

**1.2.1. Activities of the Bank:**

The principal activities of the Bank comprise the following:

- financing of reconstruction and development of the Croatian economy,
- financing of infrastructure,
- promoting exports,
- providing support to the development of SMEs,
- promoting environmental protection, and
- providing domestic goods and services export insurance against non-market risks for and on behalf of the Republic of Croatia.

HBOR may perform other financial activities according to the decisions of the Government of the Republic of Croatia if, in their opinion, it is in the best interest of the Republic of Croatia.

**2. Basis of Preparation of the Interim Condensed Financial Statements**

The Consolidated Interim Condensed Financial Statements of the HBOR Group for the period 1 January to 30 June 2017 have been prepared in accordance with the International Accounting Standard 34 Interim Financial Reporting.

The Consolidated Interim Condensed Financial Statements for the period 1 January to 30 June 2017 do not include all the information and disclosures required in annual consolidated financial statements. Therefore, they have to be read in conjunction with the Annual Consolidated Financial Statements of the HBOR Group for the year ended 31 December 2016.

The Interim Condensed Financial Statements of the HBOR Group and HBOR are prepared on the going concern basis.

The Financial Statements of the HBOR Group and HBOR are comprised of consolidated and unconsolidated Statement of Financial Position as of 30 June 2017, the Statement of Profit or Loss for the period 1 January – 30 June 2017, the Statement of Profit or Loss and other Comprehensive Income for the period 1 January – 30 June 2017, the Statement of Cash Flows for the period 1 January – 30 June 2017, the Statement of Changes in Equity for the period 1 January – 30 June 2017, and the accompanying Notes on significant accounting policies and other explanations.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

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### 3. Summary of significant accounting policies

#### 3.1. Accounting policies

Principal accounting policies applied when preparing these Interim Condensed Financial Statements are consistent with those followed in the preparation of the Annual Financial Statements as of 31 December 2016 that were disclosed on the web address: <http://www.hbor.hr>.

#### 3.2. Adoption of new and amended International Financial Reporting Standards:

The following new and amended IFRSs have been applied in the current period and have affected presentation and disclosures in these financial statements.

*a) New and amended International Financial Reporting Standards effective in the reporting period, but have not been adopted in the European Union yet:*

- Amended IAS 12 Income Taxes (effective for periods beginning on or after 1 January 2017, but has not been adopted in the European Union yet) – Recognition of Deferred Tax Assets for Unrealised Losses. IASB has concluded that the diversity in practice around the recognition of a deferred tax asset that is related to a debt instrument measured at fair value is mainly attributable to uncertainty about the application of some of the principles in IAS 12. Therefore the amendments consist of some clarifications and an illustrating example.  
This amendment will not affect the Group after the initial application.
- Amended IAS 7 Statement of Cash Flows (effective for periods beginning on or after 1 January 2017, but has not been adopted in the European Union yet) – Disclosure Initiative. The amendments come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.  
This amendment will not affect the Group after the initial application.
- Annual improvements 2014-2016 - The primary objective of the process is to enhance the quality of standards, by amending existing IFRSs to clarify guidance and wording, or to correct for relatively minor unintended consequences, conflicts or oversights.  
The issues included in this cycle are:
  - IFRS 12 Disclosure of Interests in Other Entities (effective for periods beginning on or after 1 January 2017, but have not been adopted in the European Union yet): Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.  
This amendment will not affect the Group after the initial application.
  - IFRS 1 First-time Application of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures under Annual Improvements 2014-2016 that are effective for periods beginning on or after 1 January 2018 but have not been adopted in

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

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**3. Summary of significant accounting policies (continued)**

**3.2. Adoption of new and amended International Financial Reporting Standards (continued):**

a) *New and amended International Financial Reporting Standards effective in the reporting period and that have not been adopted in the European Union yet (continued):*

- Annual improvements 2014-2016 (continued)

the European Union yet are described under c) New and amended International Financial Reporting Standards that become effective after the reporting period and have not been adopted in the European Union yet.

b) *New and amended International Financial Reporting Standards not effective in the reporting period and adopted in the European Union with the assessment of impact on the financial statements:*

- New IFRS 15 Revenue from Contracts with Customers (effective for periods beginning on or after 1 January 2018, adopted in the European Union on 22 September 2016) establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. After its effective date, it will supersede the following standards and interpretations: IAS 18 Revenues; IAS 11 Construction Contracts; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is for companies to recognise revenues to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The standard establishes a five-step model framework that will be applied to revenues generated from contracts with customers irrespective of the type of transaction or activity as follows: identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognise revenues when (or as) the entity satisfies a performance obligation. However, the standard does not apply to financial instruments and other contractual rights or obligations within the scope of IAS 39 Financial Instruments: Recognition and Measurement, i.e. IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures, insurance contracts within the scope of IFRS 4 Insurance Contracts, and consequently it will not affect the Group after the initial application.

- IFRS 9 Financial instruments - in July 2014, the final wording of the new IFRS 9 Financial Instruments (effective for periods beginning on or after 1 January 2018, adopted in the European Union on 22 November 2016), that shall from the date of its effectiveness completely replace IAS 39 Financial Instruments: Recognition and Measurement, and contains requirements relating to the recognition and measurement, impairment, de-recognition and hedge accounting in general.

*Classification and measurement of financial assets and financial liabilities* – all recognised financial assets that are currently within the scope of IAS 39, shall from the date of application of IFRS 9 be measured either at amortised cost or at fair value.



Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

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**3. Summary of significant accounting policies (continued)**

**3.2. Adoption of new and amended International Financial Reporting Standards (continued):**

b) *New and amended International Financial Reporting Standards not effective in the reporting period and adopted in the European Union with the assessment of impact on the financial statements (continued):*

- **IFRS 9 Financial instruments (continued)**

*Impairment* – IFRS 9 introduces a new expected loss impairment model according to which the occurrence of a credit loss is no longer necessary to recognise impairment. The entities recognise the annual expected credit loss or the expected credit loss throughout the lifetime of a financial instrument, depending on whether the credit risk has increased significantly since initial recognition. Any measurement of expected credit losses shall reflect the probability of outcome, incorporate the time value of money and be based on reasonable and supportable information.

*Hedge accounting* – IFRS 9 introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity. The new model represents a substantial overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

The Group shall not apply IFRS 9 in the period before its obligatory application.

During 2016, the Bank started the IFRS 9 Implementation Project, engaging external consultants.

Based on this project, the following phases are conducted:

- Series of educations for acquainting employees with the IFRS 9 and its requirements
- Gap analysis between the current status and IFRS 9 requirements in the classification and measurement stream:
  - Determine business models
  - Determine characteristics of contracted cash flows
- Gap analysis between the current status and IFRS 9 requirements in the impairment stream,
- Quantitative impact study of the IFRS 9 effects,
- Development of functional specifications for the IT application solution – software implementation,
- Development of the impairment methodology according to the business models of the Bank – development of the model for calculating risk parameters required for expected credit loss calculation as required per IFRS 9.

For the classification and measurement stream, the Bank is in the stage of defining of the business models and other requirements of the IFRS 9 based on determined gaps and identified activities for bridging the gaps.

For the impairment stream, the Bank estimates that the modelling of risk parameters with incorporation of necessary parameters for forward looking expectations, will be implemented until the end of September 2017, when the quantitative impact for the impairment stream will be identified.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

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**3. Summary of significant accounting policies (continued)**

**3.2. Adoption of new and amended International Financial Reporting Standards (continued):**

*b) New and amended International Financial Reporting Standards not effective in the reporting period and adopted in the European Union with the assessment of impact on the financial statements (continued):*

- IFRS 9 Financial instruments (continued)

The impact for the impairment stream depends on defined methodology of calculating expected credit losses and risk parameters arising from them.

Simultaneously, adjustments to HBOR's accounting policies and financial reporting processes are being made.

Temporary exemption has been granted to the subsidiary company – the HKO Group – owing to immateriality and will be applied from 1 January 2018 to 1 January 2021, i.e. the start of the implementation of the new insurance contracts Standard, unless otherwise determined by the Croatian Financial Services Supervisory Agency (HANFA).

*c) New and amended International Financial Reporting Standards that become effective after the reporting period, and that have not been adopted in the European Union yet:*

- Amended IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (application deferred for an indefinite period) dealing with the sale or contribution of assets between an investor and its associate or joint venture in the way that, in a transaction involving an associate or a joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.  
The Group shall apply the above amendments if such a transaction arises in the period after the start of the standard application.
- New IFRS 16 Leases (effective for periods beginning on or after 1 January 2019 but have not been adopted in the European Union yet) – sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier "lessor"). The new standard requires lessees to recognise most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions.  
The above new IFRS will not affect the significantly Group after the initial application.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

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**3. Summary of significant accounting policies (continued)**

**3.2. Adoption of new and amended International Financial Reporting Standards (continued):**

*c) New and amended International Financial Reporting Standards that become effective after the reporting period, and that have not been adopted in the European Union yet (continued):*

- Changes and amendments to IFRS 15 Revenue from Contracts with Customers (effective for periods beginning on or after 1 January 2018, but have not been adopted in the European Union yet) – Clarifications to IFRS 15 issued.

The amendments do not change the underlying principles of the standard, just clarify and offer some additional transition relief.

The standard 15 does not apply to financial instruments and other contractual rights or obligations within the scope of IAS 39 Financial Instruments: Recognition and Measurement, i.e. IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures, insurance contracts within the scope of IFRS 4 Insurance Contracts, and consequently it will not affect the Group after the initial application.

- Annual improvements 2014-2016 - The primary objective of the process is to enhance the quality of standards, by amending existing IFRSs to clarify guidance and wording, or to correct for relatively minor unintended consequences, conflicts or oversights.

The issues included in this cycle are:

- IFRS 1 First-time Application of International Financial Reporting Standards (effective for periods beginning on or after 1 January 2018, but have not been adopted in the European Union yet): Deleted the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.
- IAS 28 Investments in Associates and Joint Ventures (effective for periods beginning on or after 1 January 2018, but have not been adopted in the European Union yet): Clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- Changes and amendments to IFRS 2 Share-Based Payment (effective for periods beginning on or after 1 January 2018, but have not been adopted in the European Union yet) – issued clarifications of IFRS 2 regarding the classification and measurement of share-based payment transactions.  
This amendment will not affect the Group after the initial application.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

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**3. Summary of significant accounting policies (continued)**

**3.2. Adoption of new and amended International Financial Reporting Standards (continued):**

c) *New and amended International Financial Reporting Standards that become effective after the reporting period, and that have not been adopted in the European Union yet (continued):*

- Amendments to IFRS 4 Insurance Contracts - Applying IFRS 9 Financial Instruments with IFRS 4 (effective for periods beginning on or after 1 January 2018, but have not been adopted in the European Union yet) – the Amendments to existing requirements—IFRS 4 *Insurance Contracts*:
  - the „temporary exemption“ - permit entities whose predominant activities are connected with insurance to defer the application of IFRS 9 until 2021; and
  - the „overlay approach“ - permits all issuers of insurance contracts to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued.

Temporary exemption has been granted to the subsidiary company – the HKO Group – owing to immateriality and will be applied from 1 January 2018 to 1 January 2021, i.e. the start of the implementation of the new insurance contracts Standard, unless otherwise determined by the Croatian Financial Services Supervisory Agency (HANFA).

- New interpretation - IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for periods beginning on or after 1 January 2018, but have not been adopted in the European Union yet) – clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.  
The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.
- Amendments to IAS 40 Investment Property—Transfers of investment property (effective for periods beginning on or after 1 January 2018, but have not been adopted in the European Union yet).

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

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**3. Summary of significant accounting policies (continued)**

**3.2. Adoption of new and amended International Financial Reporting Standards (continued):**

*c) New and amended International Financial Reporting Standards that become effective after the reporting period, and that have not been adopted in the European Union yet (continued):*

- Amendments to IAS 40 Investment Property (continued)

The amendments in Transfers of Investment Property are:

- Paragraph 57 has been amended to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of evidence in paragraph 57(a) – (d) was designated as non-exhaustive list of examples instead of the previous exhaustive list.
- New IFRS 17 Insurance Contracts (effective for periods beginning on or after 1 January 2021, but have not been adopted in the European Union yet) - replaces IFRS 4 Insurance Contracts. The overall objective of IFRS 17 is to provide a more useful and consistent accounting model for insurance contracts among entities issuing insurance contracts globally.

The Group plans to adopt the standard after it has become effective and currently estimates its impact.

- New Interpretation - IFRIC 23 Uncertainty over Income Tax Treatments (effective for periods beginning on or after 1 January 2019, but have not been adopted in the European Union yet) - The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Group currently estimates the impact of these interpretations on financial reporting.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations  
for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**4. Interest income**

Interest income by borrowers:

	Group						Bank	
	2017			2016			2016	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Public sector	27,443	55,378	28,050	60,918	27,022	54,549	27,648	60,132
State-owned companies	13,470	25,985	10,053	18,638	13,470	25,985	10,053	18,638
Foreign companies	3,223	6,509	3,271	6,394	3,223	6,509	3,271	6,394
Domestic companies	94,817	186,462	81,370	162,108	94,817	186,462	81,370	162,108
Domestic financial institutions	61,107	125,822	70,720	145,547	61,107	125,822	70,696	145,496
Foreign financial institutions	38	173	42	63	38	173	42	63
Penalty interest	1,922	4,157	3,173	6,340	1,922	4,157	3,173	6,340
Other	10,910	47,355	13,303	29,018	10,910	47,355	13,303	29,018
	<b>212,930</b>	<b>451,841</b>	<b>209,982</b>	<b>429,026</b>	<b>212,509</b>	<b>451,012</b>	<b>209,556</b>	<b>428,189</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**4. Interest income (continued)**

Interest income by type of facility:

	Group						Bank		
	2017		2016		2016			2015	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30		Current period April 1 – June 30	Cumulatively January 1 – June 30
Interest on loans									
- financial institutions	61,826	128,389	70,701	145,692	61,826	128,389	70,701	145,692	
- other customers	140,932	302,003	126,874	258,605	140,932	302,003	126,874	258,605	
	202,758	430,392	197,575	404,297	202,758	430,392	197,575	404,297	
Investments in securities	10,132	21,270	12,332	24,579	9,711	20,441	11,930	23,793	
Deposits	40	179	75	150	40	179	51	99	
	212,930	451,841	209,982	429,026	212,509	451,012	209,556	428,189	

The difference between interest income and interest received or collected (see Statement of Cash Flows) mostly relates to the income in respect to interest subsidies inflows that are recorded upon payment. The discounted amount of the interest subsidies provided for the final user is presented as deferred interest income and is recognised in the statement of profit or loss and other comprehensive income on a time basis during the repayment of the loan. Interest income earned on this basis for the period 1 January to 30 June 2017 amounts to HRK 53,015 thousand (1 January to 30 June 2016: HRK 67,637 thousand).

Further, the difference between interest income and interest collected relates to the amount of loan fees and accrued interest. Loan fees are collected after origination of the loan, but their recognition in the statement of profit or loss and other comprehensive income is performed using effective interest rate method. Accrued interest is recognised in the statement of profit or loss and other comprehensive income on a time basis.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**5. Interest expense**

Interest expense by type of payee:

	2017		2016		Group		2017		2016		Bank	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Domestic financial institutions	754	1,469	2,663	5,323	754	1,469	2,663	5,323				
Foreign financial institutions	106,292	213,684	111,018	222,913	106,292	213,684	111,018	222,913				
	<b>107,046</b>	<b>215,153</b>	<b>113,681</b>	<b>228,236</b>	<b>107,046</b>	<b>215,153</b>	<b>113,681</b>	<b>228,236</b>				

Interest expense by type of facility:

	2017		2016		Group		2017		2016		Bank	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Borrowings	69,923	137,293	69,739	139,790	69,923	137,293	69,739	139,790				
Debt securities	36,922	77,599	43,942	88,446	36,922	77,599	43,942	88,446				
Deposits	201	261			201	261						
	<b>107,046</b>	<b>215,153</b>	<b>113,681</b>	<b>228,236</b>	<b>107,046</b>	<b>215,153</b>	<b>113,681</b>	<b>228,236</b>				

The difference between interest expense and interest paid (see the Statement of Cash Flows) mostly relates to the changes in the amount of the interest accrued in relation to the prior year and the amortization of discount for issued debt securities.



Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued).  
(All amounts are expressed in HRK thousand)

**6. Operating expenses**

Operating expenses can be shown as follows:

	2017		2016		2017		2016		Bank
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	
General and administrative expenses:									
Employee expenses	22,396	45,622	22,317	43,697	21,460	43,933	21,521	42,057	
Depreciation	1,864	3,956	1,930	3,958	1,848	3,926	1,917	3,923	
Administration expenses	3,716	6,648	3,450	5,890	3,646	6,472	3,392	5,761	
Material and services	9,150	15,205	7,398	13,246	8,684	14,251	6,943	12,430	
	37,126	71,431	35,095	66,791	35,638	68,582	33,773	64,171	
Other expenses:									
Taxes and contributions	206	305	195	340	205	303	195	339	
Other expenses	3,549	6,293	4,806	14,768	2,799	5,247	3,539	12,540	
	3,755	6,598	5,001	15,108	3,004	5,550	3,734	12,879	
	<b>40,881</b>	<b>78,029</b>	<b>40,096</b>	<b>81,899</b>	<b>38,642</b>	<b>74,132</b>	<b>37,507</b>	<b>77,050</b>	

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**6. Operating expenses (continued)**

Other expenses of the Group presented contain changes in technical reserves:

	2017		2016		Group		2017		2016		Bank
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	
Changes in claims provisions	827	799	(731)	537	-	-	-	-	-	-	-
Changes in claims provisions, reinsurer's share	(314)	(265)	10	(594)	-	-	-	-	-	-	-
Expenses of insurance operations	513	534	(721)	(57)	-	-	-	-	-	-	-

The most significant part of provisions for losses relates to the IBNR provision, the method of calculation of which was changed as compared to the same reporting date of the previous year. The Bornhuetter-Ferguson method was used for the gross amount of provisions. The reinsurance share is determined in accordance with the valid terms and conditions of reinsurance contracts. Further to this, this provision decreased both in the gross amount and in the reinsurance share in comparison with the same reporting date of the previous year.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations  
for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**7. Impairment loss and provisions:**

The provision for impairment losses on placements may be summarized as follows:

	2017			2016			Group			2017			2016			Bank
	Current period April 1 – June 30	Cumulatively January 1 – June 30		Current period April 1 – June 30	Cumulatively January 1 – June 30		Cumulatively January 1 – June 30			Current period April 1 – June 30	Cumulatively January 1 – June 30		Current period April 1 – June 30	Cumulatively January 1 – June 30		
Impairment losses on cash on hand and due from banks	(14,970)	(1,212)		(3,722)	(792)		(792)			(14,970)	(1,212)		(3,722)	(792)		(792)
Impairment losses on deposits with other banks	(190)	(229)		100	(2,042)		(2,042)			(190)	(229)		100	(2,042)		(2,042)
Impairment losses on loans to financial institutions	(20,896)	(57,354)		(15,622)	(28,635)		(28,635)			(20,896)	(57,354)		(15,622)	(28,635)		(28,635)
Impairment losses on loans to other customers and interest	31,617	117,761		21,538	38,424		38,424			31,617	117,761		21,538	38,424		38,424
Impairment losses on non-current assets held for sale	(2)	(12)		(40)	(52)		(52)			(2)	(12)		(40)	(52)		(52)
Impairment losses on assets available for sale	-	-		(3,815)	-		-			-	-		(3,815)	-		-
Impairment losses on other assets	339	532		390	641		641			321	483		417	644		644
Total increase in provision for impairment losses on assets	(4,102)	59,486		(1,171)	7,544		7,544			(4,120)	59,437		(1,144)	7,547		7,547
Provision for guarantees and commitments	(6,197)	(8,410)		1,800	(2,863)		(2,863)			(6,197)	(8,410)		1,800	(2,863)		(2,863)
Other provisions	(6,115)	(7,951)		15,863	16,277		16,277			(6,102)	(7,877)		15,894	16,316		16,316
Total increase/(decrease) in provision for guarantees and commitments and other provisions	(12,312)	(16,361)		17,663	13,414		13,414			(12,299)	(16,287)		17,694	13,453		13,453
<b>Total increase of provisions</b>	<b>(16,414)</b>	<b>43,125</b>		<b>16,492</b>	<b>20,958</b>		<b>20,958</b>			<b>(16,419)</b>	<b>43,150</b>		<b>16,550</b>	<b>21,000</b>		<b>21,000</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

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**7. Impairment loss and provisions (continued):**

The Bank regularly monitors its loans and receivables to assess impairment. The Bank uses its experience of judgements to estimate the amount of any impairment loss in cases when a borrower is in financial difficulties and there are several available sources of historical data relating to similar borrowers.

Similarly, the Bank estimates changes in future cash flows using the data indicating an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

The management uses estimates based on the historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experience and judgment to adjust available data for a group of loans or receivables according to current market conditions.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

**8. Cash on hand and due from banks**

	<b>Group</b>		<b>Bank</b>	
	<b>Jun 30, 2017</b>	<b>Dec 31, 2016</b>	<b>Jun 30, 2017</b>	<b>Dec 31, 2016</b>
Account with the Croatian National Bank	1,495,644	186,167	1,495,644	186,167
Due from domestic banks in foreign currency	2,169	1,626	2,169	1,626
Due from foreign banks in foreign currency	184,087	305,981	184,087	305,981
Due from domestic banks in HRK	1,258	551	-	-
	<u>1,683,158</u>	<u>494,325</u>	<u>1,681,900</u>	<u>493,774</u>
Provisions for impairment losses	(1,867)	(3,079)	(1,867)	(3,079)
	<b><u>1,681,291</u></b>	<b><u>491,246</u></b>	<b><u>1,680,033</u></b>	<b><u>490,695</u></b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**9. Loans to financial institutions**

	<b>Group</b>		<b>Bank</b>	
	<b>Jun 30, 2017</b>	<b>Dec 31, 2016</b>	<b>Jun 30, 2017</b>	<b>Dec 31, 2016</b>
Long-term loans under loan programmes	11,340,423	11,918,947	11,340,423	11,918,947
Short-term loans and reverse repo transactions	324,789	362,489	324,789	362,489
Accrued interest	14,386	37,363	14,386	37,363
Deferred recognition of loan origination fees	(62,660)	(66,371)	(62,660)	(66,371)
	11,616,938	12,252,428	11,616,938	12,252,428
Provisions for impairment losses	(303,436)	(363,317)	(303,436)	(363,317)
	<b>11,313,502</b>	<b>11,889,111</b>	<b>11,313,502</b>	<b>11,889,111</b>

Loans to financial institutions by purpose of the loan programmes:

	<b>Group</b>		<b>Bank</b>	
	<b>Jun 30, 2017</b>	<b>Dec 31, 2016</b>	<b>Jun 30, 2017</b>	<b>Dec 31, 2016</b>
Loan programme for reconstruction and development of the economy	2,397,041	2,775,682	2,397,041	2,775,682
Export financing	3,220,137	3,466,148	3,220,137	3,466,148
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	1,589,774	1,602,331	1,589,774	1,602,331
Loan programme for small and medium-sized enterprises	4,124,529	4,064,711	4,124,529	4,064,711
Loan programme for war-torn and demolished housing and business facilities	8,942	10,075	8,942	10,075
Other	324,789	362,489	324,789	362,489
Accrued interest	14,386	37,363	14,386	37,363
Deferred recognition of loan fees	(62,660)	(66,371)	(62,660)	(66,371)
	11,616,938	12,252,428	11,616,938	12,252,428
Provisions for impairment losses	(303,436)	(363,317)	(303,436)	(363,317)
	<b>11,313,502</b>	<b>11,889,111</b>	<b>11,313,502</b>	<b>11,889,111</b>

Average interest rates for total loans to financial institutions, at year level, are stated at 0.93% (1 January to 30 June 2016: 1.13%) and for loans under HBOR loan programmes excluding the liquidity reserve at 0.93% (1 January to 30 June 2016: 1.13%).

Average interest rates reflect the ratio of interest income generated from the mentioned placements and average assets.

Item „Other“ refers to reverse REPO agreements in the total amount of HRK 324,789 thousand (31 December 2016: HRK 232,489 thousand). The above placements are collateralised by securities in the amount of HRK 344,702 thousand (31 December 2016: HRK 247,026 thousand).

In the reporting period, provisions for loans to financial institutions in the amount of HRK 5,480 thousand were charged and provisions in the amount of HRK 62,834 thousand were reversed.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**10. Loans to other customers**

	<b>Group</b>		<b>Bank</b>	
	<b>Jun 30, 2017</b>	<b>Dec 31, 2016</b>	<b>Jun 30, 2017</b>	<b>Dec 31, 2016</b>
Domestic companies	10,637,761	10,463,392	10,637,761	10,463,392
State-owned companies	1,261,562	1,183,103	1,261,562	1,183,103
Public sector	1,572,249	1,528,564	1,572,249	1,528,564
Foreign companies	208,172	237,429	208,172	237,429
Non-profit institutions	1,712	1,712	1,712	1,712
Other	677,169	712,400	677,169	712,400
Accrued interest	85,291	83,423	85,291	83,423
Deferred recognition of loan origination fees	(114,031)	(119,328)	(114,031)	(119,328)
	<b>14,329,885</b>	<b>14,090,695</b>	<b>14,329,885</b>	<b>14,090,695</b>
Provisions for impairment losses	(2,682,771)	(2,579,501)	(2,682,771)	(2,579,501)
	<b>11,647,114</b>	<b>11,511,194</b>	<b>11,647,114</b>	<b>11,511,194</b>

Loans to other customers by loan programmes:

	<b>Group</b>		<b>Bank</b>	
	<b>Jun 30, 2017</b>	<b>Dec 31, 2016</b>	<b>Jun 30, 2017</b>	<b>Dec 31, 2016</b>
Loan programme for reconstruction and development of the economy	4,160,487	4,123,892	4,160,487	4,123,892
Export financing	4,929,062	4,687,115	4,929,062	4,687,115
Loan programme for reconstruction and development of infrastructure in the	3,161,783	3,075,022	3,161,783	3,075,022
Loan programme for small and medium-sized enterprises	2,058,175	2,158,612	2,058,175	2,158,612
Other	49,118	81,959	49,118	81,959
Accrued interest	85,291	83,423	85,291	83,423
Deferred recognition of loan origination fees	(114,031)	(119,328)	(114,031)	(119,328)
	<b>14,329,885</b>	<b>14,090,695</b>	<b>14,329,885</b>	<b>14,090,695</b>
Provisions for impairment losses	(2,682,771)	(2,579,501)	(2,682,771)	(2,579,501)
	<b>11,647,114</b>	<b>11,511,194</b>	<b>11,647,114</b>	<b>11,511,194</b>

Average interest rates for total loans to other customers, at annual level, are stated at 2.19% (1 January to 30 June 2016: 2.01%).

Average interest rates reflect the ratio of interest income generated from the mentioned placements and average assets.

In the reporting period, provisions for loans to other customers in the amount of HRK 249,923 thousand were charged and provisions in the amount of HRK 132,132 thousand were reversed.

Value adjustment of loans to other customers was reduced by the amount of HRK 263 thousand relating to the takeover of immovable property in the execution procedure.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**11. Assets available for sale**

	<b>Group</b>		<b>Bank</b>	
	<b>Jun 30, 2017</b>	<b>Dec 31, 2016</b>	<b>Jun 30, 2017</b>	<b>Dec 31, 2016</b>
<b>Debt instruments:</b>				
<b>Listed debt instruments:</b>				
Bonds of the Ministry of Finance of the Republic of Croatia	884,031	925,887	841,975	884,914
Financial institution bonds	878	910	-	-
Corporate bonds	1,143	1,161	-	-
Treasury bills of the Ministry of Finance of the Republic of Croatia	1,293,042	1,500,420	1,293,042	1,500,420
Accrued interest	13,802	14,495	13,178	13,890
	<b>2,192,896</b>	<b>2,442,873</b>	<b>2,148,195</b>	<b>2,399,224</b>
<b>Unlisted debt instruments:</b>				
Corporate bonds	496	502	496	502
Accrued interest	131	99	131	99
	<b>627</b>	<b>601</b>	<b>627</b>	<b>601</b>
<b>Equity instruments:</b>				
<b>Listed equity instruments:</b>				
Investments in companies' shares	10,938	10,938	10,938	10,938
	<b>10,938</b>	<b>10,938</b>	<b>10,938</b>	<b>10,938</b>
<b>Unlisted equity instruments:</b>				
Investments in shares of foreign legal entities	32	32	32	32
Investments in financial institutions shares	161	161	161	161
Shares of foreign financial institutions – EIF	25,065	25,815	25,065	25,815
Investments in companies' shares	16,725	16,725	16,725	16,725
Provision for impairment losses	(16,725)	(16,725)	(16,725)	(16,725)
	<b>25,258</b>	<b>26,008</b>	<b>25,258</b>	<b>26,008</b>
<b>Investments in investment funds:</b>				
Shares classified as assets available for sale	867,430	909,614	862,906	906,803
	<b>867,430</b>	<b>909,614</b>	<b>862,906</b>	<b>906,803</b>
<b>Balance</b>	<b>3,097,149</b>	<b>3,390,034</b>	<b>3,047,924</b>	<b>3,343,574</b>



Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**11. Assets available for sale (continued)**

The following text contains investment breakdown:

	Date of issue	Date of maturity	Interest rate (%)	Jun 30, 2017	Group Dec 31, 2016	Jun 30, 2017	Bank Dec 31, 2016
<b>Debt instruments:</b>							
Listed debt instruments:							
Bonds of the Republic of Croatia indexed to foreign currency:							
RHMF-O-19BA	29.11.2004	29.11.2019	5.375	46,880	48,602	45,899	47,588
RHMF-O-227E	22.7.2011	22.7.2022	6.5	170,867	172,432	170,867	172,432
RHMF-O-247E	10.7.2013	10.7.2024	5.75	17,612	17,802	12,427	12,558
RHMF-O-203E	5.3.2010	5.3.2020	6.5	845	875	-	-
Bonds of the Republic of Croatia in foreign currency:							
XS0645940288	8.7.2011	9.7.2018	5.875	54,721	57,370	54,721	57,370
XS0776179656	27.4.2012	27.4.2017	6.25	-	14,529	-	14,529
XS1117298916	11.3.2015	11.3.2025	3.0	53,687	53,248	53,687	53,248
Bonds of the Republic of Croatia in HRK:							
RHMF-O-172A	8.2.2007	8.2.2017	4.75	-	100,995	-	100,410
RHMF-O-187A	10.7.2013	10.7.2018	5.25	41,949	42,406	36,691	37,094
RHMF-O-17BA	25.11.2010	25.11.2017	6.25	158,046	161,910	153,438	157,185
RHMF-O-203A	5.3.2010	5.3.2020	6.75	2,982	3,003	-	-
RHMF-O-257A	9.7.2015	9.7.2025	4.5	9,444	9,335	-	-
RHMF-O-26CA	14.12.2015	14.12.2026	4.25	42,202	41,909	33,370	33,089
RHMF-O-217A	8.7.2016	8.7.2021	2.75	202,930	201,471	200,863	199,411
RHMF-O-222A	7.2.2017	7.2.2022	2.25	70,220	-	70,220	-
RHMF-O-282A	7.2.2017	7.2.2028	2.875	11,646	-	9,792	-
Financial institution bonds in HRK:							
RIBA-O-17BA	23.11.2012	23.11.2017	5.88	51	522	-	-
Financial institution bonds indexed to foreign currency:							
RIBA-O-177A	18.7.2011	18.7.2017	6.5	367	388	-	-
Corporate bonds in HRK:							
JDGL-O-20CA	21.12.2015	21.12.2020	5.81	766	770	-	-
Corporate bonds indexed to foreign currency:							
JRLN-O-17AA	24.10.2012	24.10.2017	6.5	377	391	-	-
Treasury bills in HRK up to 182 days			0.611	49,999	-	49,999	-
Treasury bills in HRK up to 281 days			0.728	29,926	-	29,926	-
Treasury bills in HRK up to 364 days			0.690–0.856	806,208	1,087,406	806,208	1,087,406
Treasury bills in foreign currency up to 455 days			0.267	406,909	413,014	406,909	413,014
Accrued interest				13,802	14,495	13,178	13,890
				<b>2,192,896</b>	<b>2,442,873</b>	<b>2,148,195</b>	<b>2,399,224</b>
<b>Unlisted debt instruments:</b>							
Corporate bonds indexed to foreign currency:							
LNGU-O-31AE	24.7.2015	15.10.2031	4.5	496	502	496	502
Accrued interest				131	99	131	99
				<b>627</b>	<b>601</b>	<b>627</b>	<b>601</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**11. Assets available for sale (continued)**

The following text contains investment breakdown (continued):

	Jun 30, 2017	Group Dec 31, 2016	Jun 30, 2017	Bank Dec 31, 2016
<b>Equity instruments:</b>				
Listed equity instruments:				
Investments in companies' shares	10,938	10,938	10,938	10,938
	<b>10,938</b>	<b>10,938</b>	<b>10,938</b>	<b>10,938</b>
Unlisted equity instruments:				
Investments in shares of foreign legal entities in foreign currency	32	32	32	32
Investments in financial institutions' shares	161	161	161	161
Investments in shares of foreign financial institutions in foreign currency - EIF	25,065	25,815	25,065	25,815
Investments in companies' shares	16,725	16,725	16,725	16,725
Provisions for impairment losses	(16,725)	(16,725)	(16,725)	(16,725)
	<b>25,258</b>	<b>26,008</b>	<b>25,258</b>	<b>26,008</b>
<b>Investments in investments funds in the Republic of Croatia</b>	<b>867,430</b>	<b>909,614</b>	<b>862,906</b>	<b>906,803</b>
<b>Total</b>	<b>3,097,149</b>	<b>3,390,034</b>	<b>3,047,924</b>	<b>3,343,574</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**12. Borrowings**

	Group		Bank	
	Jun 30, 2017	Dec 31, 2016	Jun 30, 2017	Dec 31, 2016
Balance as of 1 January	13,378,057	11,453,796	13,378,057	11,453,796
New borrowings	3,154,491	3,730,867	3,154,491	3,730,867
Repayments	(823,167)	(1,730,849)	(823,167)	(1,730,849)
Net foreign exchange gains/(losses)	(301,102)	(75,757)	(301,102)	(75,757)
	15,408,279	13,378,057	15,408,279	13,378,057
Accrued interest	64,403	64,018	64,403	64,018
Deferred recognition of borrowing origination fees	(49,101)	(50,326)	(49,101)	(50,326)
<b>Balance</b>	<b>15,423,581</b>	<b>13,391,749</b>	<b>15,423,581</b>	<b>13,391,749</b>

The Bank is subject to different financial covenants arising from the Contract. As of 30 June 2017 the Bank was in compliance with all required financial covenants from the Contract.

Average interest rates on borrowings, on annual level, are 1.57% (1 January to 30 June 2016: 1.74%).  
Average interest rates represent the ratio of interest expenses on borrowings and average total liabilities.

**13. Bonds payable**

The book value of bonds includes interest.

Group and Bank	Effective interest rate	Fair value	Net book value	Fair value	Net book value
		Jun 30, 2017	Jun 30, 2017	Dec 31, 2015	Dec 31, 2015
Bonds EUR 250 million	5.076	-	-	1,915,899	1,888,837
Bonds EUR 150 million	6.37	1,236,873	1,100,478	1,270,695	1,121,261
Accrued interest		-	9,679	-	95,932
Deferred recognition of bond payable origination fees		-	(393)	-	(461)
		1,236,873	1,109,764	3,186,594	3,105,569

The fair value of bonds issued by HBOR is presented by using level 2 inputs corroborated by the market and observable at Bloomberg service on the basis of the mid-rate of Bloomberg Generic prices (BGN).

Average interest rates on bonds payable, on yearly level, are 0.89% (1 January to 30 June 2016: 1.10%).  
Average interest rates represent the ratio of interest expenses on bonds payable and average total liabilities.

On 13 June 2017, HBOR redeemed long-term securities of HRK 1,852,051 thousand together with interest of HRK 92,603 thousand.

According to the Agreement between HBOR and Deutsche Bank AG London Branch and J.P. Morgan Securities PLC (as joint lead managers), on 13 August 2013 HBOR issued bonds of EUR 150,000 thousand (HRK 1,100,478 thousand as at 30 June 2017 and HRK 1,270,695 thousand as at 31 December 2016) with maturity period of 6 years and 9 months and fixed interest rate of 6.0%.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

#### 14. Guarantees and commitments

In its regular activities, the Bank contracts various commitments and contingent liabilities. The purpose of these instruments is to ensure that the funds are available to a customer when required.

The balance of total gross contingent liabilities as of 30 June 2017 amounted to HRK 5,588,394 thousand, decreased by 8% compared with the beginning of the year. Overview of guarantees and commitments:

##### Group and Bank

	Jun 30, 2017	Dec 31, 2016
Guarantees issued in HRK	27,932	32,409
Guarantees issued in foreign currency	1,921,352	2,007,578
Undrawn loans	3,589,127	3,978,340
EIF – subscribed, not called up capital	47,403	48,370
Open letters of credit in foreign currency	2,241	-
Other irrevocable contingent liabilities	339	339
	<u>5,588,394</u>	<u>6,067,036</u>
Provisions for guarantees and commitments	<u>(66,457)</u>	<u>(75,103)</u>
	<u>5,521,937</u>	<u>5,991,933</u>

##### Guarantees

Issued guarantees and open letters of credit represent the liability to the Bank to make payments on behalf of customers if the customer is unable to honour its commitments towards third parties or in the event of a specific act, generally related to the export or import of goods and other purposes specified in the contracts with the customers. Guarantees and letters of credit bear the same credit risk as loans.

Bank guarantees are, to the extent of 84%, collateralised by the guarantees, deposits and bank guarantees. Open letters of credit are fully covered by deposits.

##### Commitments upon undrawn loans

The Bank has an obligation to disburse funds for loans and revolving loans upon committed undrawn loans. The expiry date of disbursement or other termination clause is determined by the contract. Disbursements are exercised in several withdrawals, depending on the purpose of the loan, phase of the project or documentation needed for disbursement. Since commitments may expire without being drawn upon, the total contractual amounts do not necessarily represent future cash outflows.

Committed undrawn loans include less potential credit risk than loans, since most commitments depend upon meeting specific terms and conditions by the customers in order to use the funds. The Bank monitors the terms to maturity of loan commitments.

##### Other irrevocable contingent liabilities

Other irrevocable contingent liabilities relate to HBOR's obligation based on the Agreement concluded on 24 January 2014 with HBOR – Export Credit Insurance performing transactions for and on behalf of the Republic of Croatia. Pursuant to this Agreement, HBOR shall, in case of disposal of the real estate taken over and the recovery from debtors in a pre-bankruptcy settlement, provided that certain conditions have been fulfilled, pay the recovered funds to the Guarantee fund of the Export Credit Insurance.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

## 15. Related-party transactions

Related parties are companies that directly or indirectly, through one or more intermediaries, control, or are controlled by, the reporting company.

The majority of related-party transactions relate to the transactions with the Republic of Croatia, the 100% owner of the Bank and state-owned companies over which the Republic of Croatia has the controlling influence.

All transactions stated were carried out under usual/regular conditions of the Bank.

Exposure and liabilities as of 30 June 2017 and 31 December 2016, and income and expense for the period 1 January to 30 June 2017 and for the period 1 January to 30 June 2016 arising from transactions with related parties, including the Bank's key management personnel, include the following:

### a) Related-party transactions

Group	Exposure	Liabilities	Exposure	Liabilities
	Jun 30, 2017	Jun 30, 2017	Dec 31, 2016	Dec 31, 2016
Owner	2,750,783	178,153	3,193,565	153,374
Government funds, executive authorities and agencies	998,378	176,206	1,087,460	14,214
State-owned companies	1,292,586	-	1,193,668	2
Associates	4	-	6	-
Other intra-group transactions	-	-	-	-
Key management personnel	4,091	-	4,289	-
<b>Total</b>	<b>5,045,842</b>	<b>354,359</b>	<b>5,478,988</b>	<b>167,590</b>

Group	Income	Expense	Income	Expense
	Jan 1 to Jun 30, 2017	Jan 1 to Jun 30, 2017	Jan 1 to Jun 30, 2016	Jan 1 to Jun 30, 2016
Owner	39,347	136	51,904	5,177
Government funds, executive authorities and agencies	11,717	160	9,776	494
State-owned companies	30,535	2,322	25,214	7,487
Associates	3,668	-	515	-
Other intra-group transactions	-	-	-	37
Key management personnel	66	-	79	-
<b>Total</b>	<b>85,333</b>	<b>2,618</b>	<b>87,488</b>	<b>13,195</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

**15. Related-party transactions (continued)**

a) Related-party transactions (continued)

Bank	Exposure	Liabilities	Exposure	Liabilities
	Jun 30, 2017	Jun 30, 2017	Dec 31, 2016	Dec 31, 2016
Owner	2,750,783	178,153	3,193,565	153,374
Government funds, executive authorities and agencies	954,287	176,065	1,044,382	14,079
State-owned companies	1,292,191	-	1,193,271	-
Subsidiary companies	36,124	-	36,124	-
Associates	4	-	6	-
Key management personnel	3,832	-	4,000	-
<b>Total</b>	<b>5,037,221</b>	<b>354,218</b>	<b>5,471,348</b>	<b>167,453</b>

Bank	Income	Expense	Income	Expense
	Jan 1 to Jun 30, 2017	Jan 1 to Jun 30, 2017	Jan 1 to Jun 30, 2016	Jan 1 to Jun 30, 2016
Owner	39,347	136	51,904	5,177
Government funds, executive authorities and agencies	11,561	25	8,837	221
State-owned companies	30,524	2,281	25,205	7,455
Subsidiary companies	-	-	-	-
Associates	3,668	-	515	-
Key management personnel	62	-	76	-
<b>Total</b>	<b>85,162</b>	<b>2,442</b>	<b>86,537</b>	<b>12,853</b>

Exposures include loans to other customers, available-for-sale assets, assets held to maturity, other assets and off-balance sheet exposure relating to guarantees, letters of credit and commitments.

Liabilities include deposits and other liabilities.

Income includes interest income, fee income and reversal of impairment losses and provisions.

Expense includes impairment losses and provisions.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

**15. Related-party transactions (continued)**

b) Collateral received

	<b>Group</b>		<b>Bank</b>	
	<b>Jun 30, 2017</b>	<b>Dec 31, 2016</b>	<b>Jun 30, 2017</b>	<b>Dec 31, 2016</b>
The Republic of Croatia	3,174,397	3,092,258	3,079,668	3,007,698
State agencies	584,454	603,215	584,454	603,215
<b>Total</b>	<b>3,758,851</b>	<b>3,695,473</b>	<b>3,664,122</b>	<b>3,610,913</b>

Collateral received relates to first-class collateral instruments received as security for HBOR's placements comprising the Republic of Croatia guarantees, HAMAG-BICRO guarantees, insurance policies of export transactions against political and/or commercial risks and statutory guarantees in cases when the Republic of Croatia or other state executive body guarantees the liabilities of certain borrowers pursuant to provisions of certain laws.

HBOR issues reinsurance policies for and on behalf of the Republic of Croatia, i.e. covers a proportional part (quota reinsurance) of political and commercial risks of export loans and receivables arising from export of goods and services. The reinsurer covers all non-marketable (non-market) risks underwritten by the Insurer or Hrvatsko kreditno osiguranje d.d. in the percentage ranging from 30% to 90% of an insured amount.

c) Salaries of key management personnel

Salaries include compensation paid for regular work, annual vacation, national holidays, paid leave, sick leave, jubilee awards and payments pursuant to contracts. Salaries for the Group in the reporting period amounted to HRK 4,300 thousand (1 January to 30 June 2016: HRK 4,136 thousand), and for the Bank amounted to HRK 4,010 thousand (1 January to 30 June 2016: HRK 3,500 thousand).

In the reporting period, remuneration for the work of the members of the Supervisory Board for the Group amounted to HRK 209 thousand (1 January to 30 June 2016: HRK 165 thousand) and for the Bank amounted to HRK 80 thousand (1 January to 30 June 2016: HRK 98 thousand) and it relates to members of the supervisory boards at associates and subsidiaries who were appointed by HBOR.

Notes to the Consolidated Interim Condensed Financial Statements include  
significant accounting policies and other explanations  
for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

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## 16. Risk management

### 16.1. Introduction

Based on the Act on the Croatian Bank for Reconstruction and Development, the Bank is obliged to mitigate business risks directed by the principles of banking operations. In the process of risk management, the Bank identifies, estimates, measures, monitors, masters and controls the risks to which it is or might be exposed in the course of business and reports about them to the bodies in charge. The mode, methods and frequency of risk estimations and measurements are prescribed by the internal documents of the Bank. In its daily operations, the Bank manages credit risk, liquidity risk, interest rate risk in the Bank's book, currency risk, operational risk and outsourcing risk. The mentioned risks are managed on the basis of policies, procedures, methodologies, regulations and systems, limits and decisions/conclusions of the Supervisory Board, the Management Board and the risk management committees.

The Bank has a functionally and organizationally separate and independent organizational unit for the control of business risks, which is directly responsible to the Management Board. This organisational unit is responsible for definition, evaluation, measurement and control of the risks to which the Bank is exposed or might be exposed in the course of its business. It carries out its role by performing analyses, assessment and measurement of risks, developing risk management policies, procedures, ordinances and methodologies, supervising and monitoring their application, recommending and controlling the accepted exposure limits, giving suggestions and recommendations for adequate management of exposure to credit and non-credit risks as well as reporting to the Management Board and the competent risk management committees.

When assessing or measuring risk, the Bank takes into account historical data, business plans, current and expected market conditions and the specific characteristics of the Bank as a special financial institution. The results of risk assessments or measurements, analyses and stress tests carried out are presented at the meetings of the risk management committees, the Management Board and the Supervisory Board. For the purpose of monitoring and control of risks, systems of limits are introduced for the management of credit risk, liquidity risk, interest rate risk in the Bank's book and currency risk. The Bank implements the sensitivity analyses and scenario analyses, provided that one or several risk factors are changed in regular or stressful circumstances, and their results are reported to the competent bodies of HBOR. Systems of pro-active risk management are continuously developed for the purpose of reducing possible future risks.

The Management Board of the Bank is responsible for implementing risk management strategies and establishing an effective and reliable risk management system. In order to accomplish its task, the Management Board delegated their risk management authority to four committees:

- Assets and Liabilities Management Committee (ALCO) – manages liquidity risk, interest rate risk in the Bank's book and currency risk within the framework of the accepted policies, ordinances and procedures of the Bank that regulate this area,
- Credit Risk Evaluation and Measurement Committee – manages credit risk within the framework set through accepted policies, ordinances, procedures, and other internal acts that cover issues related to credit risk,
- HBOR Information System Management Committee – manages the resources of the information system and adequately manages the risks that result from the use of information technology,
- Business Changes Management Committee – manages business changes (co-ordination of procedures for the suggestion, approval, monitoring and implementation of business changes) in order to reduce risks associated with the implementation of business changes.

The risk management strategy is directed towards achieving and maintaining the system that would provide quality and efficiency in risk management complied with domestic and international banking practices, the European regulations as well as the Basel Committee and the Croatian National Bank recommendations applicable to HBOR as a special financial institution.



Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

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**16. Risk management (continued)**

**16.2. Credit risk**

The Bank controls credit risk by way of credit policies, ordinances and prescribed procedures for the management of this risk that determine internal control systems aiming to act preventively.

The credit risk management system is the most important part of the HBOR business policy and is an important factor of its operation strategy. Therefore, this area has been regulated by a special document – the Credit Risk Management Procedures that are applied in all phases of the credit process (from the development of new bank products, credit application, monitoring of the client's business operations until the final loan repayment). The Credit Risk Management Procedures represent a comprehensive document that also contains methodologies for the assessment of various target groups of clients.

For the purpose of mitigating credit risk and reducing operating expenses, in compliance with the Act on the Croatian Bank for Reconstruction and Development, the Bank approves part of its placements through commercial banks that bear the risk of loan repayment by final borrowers. All direct placements are mainly secured with a mortgage over real estate, and, if that is possible, the Bank obtains as security against credit risk a guarantee from the HAMAG-BICRO, and other types of warranties and guarantees. Depending on the type of collateral, the credit programme, the general terms of security or the decision of an authorised body, the Bank has determined the necessary ratio of placements amount and collateral value.

The Bank, with its developmental loan programmes, covers the entire Republic of Croatia with a special emphasis on supported areas and special concern areas. Credit risk is diversified across geographical areas, activities, industries and loan programmes. The Bank tries to avoid the excess concentration of credit risk and evenly develop all areas of the Republic of Croatia through the development of new loan programmes (products) and favourable terms and conditions of loans in accordance with the government strategy for the development of individual business activities.

As of 30 June 2017, the highest credit exposure of the Group and the Bank to one debtor equalled HRK 2,783,986 thousand (as of 31 December 2016: HRK 3,147,235 thousand), without considering the effect of mitigation through collateral received.

Notes to the Consolidated Interim Condensed Financial Statements include  
significant accounting policies and other explanations  
for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

**Concentration of risk and maximum credit risk exposure**

The table below shows the highest gross credit risk exposures existing in the Statement of Financial Position and in Guarantees and commitments as of the reporting date, before the effect of mitigation through collateral received:

	<b>Group</b>		<b>Bank</b>	
	<b>Gross highest exposure</b>	<b>Gross highest exposure</b>	<b>Gross highest exposure</b>	<b>Gross highest exposure</b>
	<b>Jun 30, 2017</b>	<b>Dec 31, 2016</b>	<b>Jun 30, 2017</b>	<b>Dec 31, 2016</b>
<b>Assets</b>				
Cash on hand and due from banks	1,681,276	491,243	1,680,018	490,692
Deposits with other banks	1,548	23,872	1,548	23,872
Loans to financial institutions	11,313,502	11,889,111	11,313,502	11,889,111
Loans to other customers	11,647,114	11,511,194	11,647,114	11,511,194
Financial assets at fair value through profit or loss	284	286	-	-
Assets available for sale	3,060,953	3,353,086	3,011,728	3,306,628
Assets held to maturity	1,390	1,422	-	-
Other assets	5,001	6,249	3,482	3,079
<b>Total</b>	<b>27,711,068</b>	<b>27,276,463</b>	<b>27,657,392</b>	<b>27,224,576</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	27,653	32,082	27,653	32,082
Issued guarantees in foreign currency	1,897,841	1,982,969	1,897,841	1,982,969
Open letters of credit in foreign currency	2,218	-	2,218	-
Undrawn loans	3,546,487	3,928,177	3,546,487	3,928,177
Other irrevocable contingent liabilities	335	335	335	335
<b>Total</b>	<b>5,474,534</b>	<b>5,943,563</b>	<b>5,474,534</b>	<b>5,943,563</b>
<b>Total credit risk exposure</b>	<b>33,185,602</b>	<b>33,220,026</b>	<b>33,131,926</b>	<b>33,168,139</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

Concentration of assets and guarantees and commitments, according to geographical segments, before the effect of mitigation through collateral received, is as follows:

<b>Group Jun 30, 2017</b>	<b>Republic of Croatia</b>	<b>EU countries</b>	<b>Other countries</b>	<b>Total</b>
<b>Assets</b>				
Cash on hand and due from banks	1,499,030	173,838	8,408	1,681,276
Deposits with other banks	1,530	18	-	1,548
Loans to financial institutions	11,313,502	-	-	11,313,502
Loans to other customers	11,445,972	-	201,142	11,647,114
Financial assets at fair value through profit or loss	284	-	-	284
Assets available for sale	3,060,953	-	-	3,060,953
Assets held to maturity	1,390	-	-	1,390
Other assets	4,332	669	-	5,001
<b>Total</b>	<b>27,326,993</b>	<b>174,525</b>	<b>209,550</b>	<b>27,711,068</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	27,051	602	-	27,653
Issued guarantees in foreign currency	1,897,841	-	-	1,897,841
Open letters of credit in foreign currency	2,218	-	-	2,218
Undrawn loans	3,546,487	-	-	3,546,487
Other irrevocable contingent liabilities	335	-	-	335
<b>Total</b>	<b>5,473,932</b>	<b>602</b>	<b>-</b>	<b>5,474,534</b>
<b>Total credit risk exposure</b>	<b>32,800,925</b>	<b>175,127</b>	<b>209,550</b>	<b>33,185,602</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

Concentration of assets and guarantees and commitments, according to geographical segments, before the effect of mitigation through collateral received, is as follows (continued):

<b>Group Dec 31, 2016</b>	<b>Republic of Croatia</b>	<b>EU countries</b>	<b>Other countries</b>	<b>Total</b>
<b>Assets</b>				
Cash on hand and due from banks	188,322	301,354	1,567	491,243
Deposits with other banks	3,291	20,581	-	23,872
Loans to financial institutions	11,889,111	-	-	11,889,111
Loans to other customers	11,281,848	-	229,346	11,511,194
Financial assets at fair value through profit or loss	286	-	-	286
Assets available for sale	3,353,086	-	-	3,353,086
Assets held to maturity	1,422	-	-	1,422
Other assets	5,644	605	-	6,249
<b>Total</b>	<b>26,723,010</b>	<b>322,540</b>	<b>230,913</b>	<b>27,276,463</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	31,480	602	-	32,082
Issued guarantees in foreign currency	1,982,969	-	-	1,982,969
Undrawn loans	3,928,177	-	-	3,928,177
Other irrevocable contingent liabilities	335	-	-	335
<b>Total</b>	<b>5,942,961</b>	<b>602</b>	<b>-</b>	<b>5,943,563</b>
<b>Total credit risk exposure</b>	<b>32,665,971</b>	<b>323,142</b>	<b>230,913</b>	<b>33,220,026</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

Concentration of assets and guarantees and commitments, according to geographical segments, before the effect of mitigation through collateral received, is as follows:

<b>Bank Jun 30, 2017</b>	<b>Republic of Croatia</b>	<b>EU countries</b>	<b>Other countries</b>	<b>Total</b>
<b>Assets</b>				
Cash on hand and due from banks	1,497,772	173,838	8,408	1,680,018
Deposits with other banks	1,530	18	-	1,548
Loans to financial institutions	11,313,502	-	-	11,313,502
Loans to other customers	11,445,972	-	201,142	11,647,114
Assets available for sale	3,011,728	-	-	3,011,728
Other assets	3,249	233	-	3,482
<b>Total</b>	<b>27,273,753</b>	<b>174,089</b>	<b>209,550</b>	<b>27,657,392</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	27,051	602	-	27,653
Issued guarantees in foreign currency	1,897,841	-	-	1,897,841
Open letters of credit in foreign currency	2,218	-	-	2,218
Undrawn loans	3,546,487	-	-	3,546,487
Other irrevocable contingent liabilities	335	-	-	335
<b>Total</b>	<b>5,473,932</b>	<b>602</b>	<b>-</b>	<b>5,474,534</b>
<b>Total credit risk exposure</b>	<b>32,747,685</b>	<b>174,691</b>	<b>209,550</b>	<b>33,131,926</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

Concentration of assets and guarantees and commitments, according to geographical segments, before the effect of mitigation through collateral received, is as follows (continued):

<b>Bank Dec 31, 2016</b>	<b>Republic of Croatia</b>	<b>EU countries</b>	<b>Other countries</b>	<b>Total</b>
<b>Assets</b>				
Cash on hand and due from banks	187,771	301,354	1,567	490,692
Deposits with other banks	3,291	20,581	-	23,872
Loans to financial institutions	11,889,111	-	-	11,889,111
Loans to other customers	11,281,848	-	229,346	11,511,194
Assets available for sale	3,306,628	-	-	3,306,628
Other assets	2,844	235	-	3,079
<b>Total</b>	<b>26,671,493</b>	<b>322,170</b>	<b>230,913</b>	<b>27,224,576</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	31,480	602	-	32,082
Issued guarantees in foreign currency	1,982,969	-	-	1,982,969
Undrawn loans	3,928,177	-	-	3,928,177
Other irrevocable contingent liabilities	335	-	-	335
<b>Total</b>	<b>5,942,961</b>	<b>602</b>	<b>-</b>	<b>5,943,563</b>
<b>Total credit risk exposure</b>	<b>32,614,454</b>	<b>322,772</b>	<b>230,913</b>	<b>33,168,139</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

Concentration of assets and guarantees and commitments, according to industry, before and after the effect of mitigation through collateral received, is as follows:

Group	Gross highest exposure	Net highest exposure	Gross highest exposure	Net highest exposure
	Jun 30, 2017	Jun 30, 2017	Dec 31, 2016	Dec 31, 2016
Financial intermediation and insurance	16,037,015	-	15,359,154	-
Water and electric supply and other infrastructure	1,265,618	964,969	1,322,277	959,881
Tourism	3,601,662	326,747	3,630,150	363,739
Transport, warehousing and connections	1,605,237	794,838	1,714,718	836,069
Shipbuilding	2,189,766	322,917	2,257,050	572,383
Agriculture and fishery	486,715	70,387	515,711	68,982
Food industry	963,468	179,990	1,159,546	205,632
Construction industry	1,135,860	25,597	1,225,887	53,900
Other industry	480,497	126,823	527,352	138,850
Public administration	2,178,524	2,178,524	2,426,716	2,426,716
Education	46,541	40,986	47,020	40,956
Manufacture of basic metals and fabricated metal products, except machinery and equipment	367,997	53,365	407,254	62,818
Manufacture of chemicals and chemical products	413,527	94,418	255,576	16,761
Manufacture of other non-metallic mineral products	256,949	3,518	273,959	4,399
Pharmaceutical industry	543,038	842	572,470	809
Other	1,613,188	458,861	1,525,185	311,092
<b>Total credit risk exposure</b>	<b>33,185,602</b>	<b>5,642,782</b>	<b>33,220,026</b>	<b>6,062,987</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

Concentration of assets and guarantees and commitments, according to industry, before and after the effect of mitigation through collateral received, is as follows:

Bank	Gross highest exposure	Net highest exposure	Gross highest exposure	Net highest exposure
	Jun 30, 2017	Jun 30, 2017	Dec 31, 2016	Dec 31, 2016
Financial intermediation and insurance	16,029,455	-	15,352,325	-
Water and electric supply and other infrastructure	1,265,618	964,969	1,322,277	959,881
Tourism	3,601,662	326,747	3,630,150	363,739
Transport, warehousing and connections	1,604,709	794,310	1,714,322	835,673
Shipbuilding	2,189,766	322,917	2,257,050	572,383
Agriculture and fishery	486,696	70,367	515,702	68,974
Food industry	963,403	179,926	1,159,491	205,577
Construction industry	1,135,792	25,529	1,225,813	53,826
Other industry	480,265	126,591	527,143	138,641
Public administration	2,134,460	2,134,460	2,383,635	2,383,635
Education	46,541	40,986	47,020	40,956
Manufacture of basic metals and fabricated metal products, except machinery and equipment	367,925	53,294	407,200	62,764
Manufacture of chemicals and chemical products	413,505	94,396	255,537	16,721
Manufacture of other non-metallic mineral products	256,935	3,504	273,896	4,336
Pharmaceutical industry	542,197	-	571,663	-
Other	1,612,997	458,670	1,524,915	310,823
<b>Total credit risk exposure</b>	<b>33,131,926</b>	<b>5,596,666</b>	<b>33,168,139</b>	<b>6,017,929</b>

Concentration of assets and guarantees and commitments according to industry for both years has been compiled in accordance with the National Classification of Activities 2007 ("NKD 2007").

In the preparation of the Note, a combined approach is applied, which takes into consideration business activities of a debtor, retains the names of activities different from those in the National Classification of Activities and unites similar business activities.



Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

The fair value of collateral for the Group as of 30 June 2017 amounted to HRK 27,542,820 thousand (31 December 2016: HRK 27,157,039 thousand), and for the Bank HRK 27,535,260 thousand (31 December 2016: HRK 27,150,210 thousand).

In the total net highest exposure of the Bank as of 30 June 2017, the credit risk of HRK 3,686,316 thousand (31 December 2016: HRK 4,136,125 thousand) is not covered with ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 606,412 thousand (31 December 2016: HRK 867,410 thousand), from local (regional) authorities of HRK 501,210 thousand (31 December 2016: HRK 395,629 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 241,368 thousand (31 December 2016: HRK 242,735 thousand), government funds of HRK 501 thousand (31 December 2016: HRK 1,250 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 2,148,195 thousand (31 December 2016: HRK 2,399,224 thousand). In addition, an amount of HRK 188,630 thousand (31 December 2016: HRK 229,877 thousand) relates to receivables from a majority state-owned company (controlling influence).

Part of the placements with net exposure relates to placements provisionally and partially covered with collateral and the further increase in exposure has been stopped pending the submission of the full collateral necessary for compliance with the requested collateral coverage ratio.

Financial intermediation includes mainly commercial banks.

Credit risk exposure by internal credit rating:

Internal credit rating	Historical default rate	Historical default rate	Group		Bank	
	(%)	(%)				
	Jun 30, 2017	Dec 31, 2016	Jun 30, 2017	Dec 31, 2016	Jun 30, 2017	Dec 31, 2016
A	1.14%	1.52%	31,410,024	31,671,378	31,356,348	31,619,491
B	33.30%	34.08%	1,775,578	1,548,648	1,775,578	1,548,648
C	96.01%	95.56%	-	-	-	-
Total			33,185,602	33,220,026	33,131,926	33,168,139

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

**Credit risk quality according to type of financial assets**

Credit risk analysis, before and after the effect of mitigation through collateral received according to the type of financial assets on positions of assets and guarantees and commitments by internal credit rating, is as follows:

Group	Gross exposure of portfolio of risk group A	Gross exposure of portfolio of risk group B	Gross exposure of portfolio of risk group C	Gross exposure of total portfolio	Net exposure of portfolio of risk group A	Net exposure of portfolio of risk group B	Net exposure of portfolio of risk group C	Net exposure of total portfolio
<b>Jun 30, 2017</b>								
<b>Assets</b>								
Cash on hand and due from banks	1,681,276	-	-	1,681,276	-	-	-	-
Deposits with other banks	1,548	-	-	1,548	-	-	-	-
Loans to financial institutions	10,983,428	330,074	-	11,313,502	-	-	-	-
Loans to other customers	10,228,481	1,418,633	-	11,647,114	2,631,496	22,714	-	2,654,210
Financial assets at fair value through profit or loss	284	-	-	284	-	-	-	-
Assets available for sale	3,060,953	-	-	3,060,953	2,192,619			2,192,619
Assets held to maturity	1,390	-	-	1,390	1,390	-	-	1,390
Other assets	3,622	1,379	-	5,001	2,527	1,379	-	3,906
<b>Total</b>	<b>25,960,982</b>	<b>1,750,086</b>	<b>-</b>	<b>27,711,068</b>	<b>4,828,032</b>	<b>24,093</b>	<b>-</b>	<b>4,852,125</b>
<b>Guarantees and commitments</b>								
Guarantees issued in HRK	27,653	-	-	27,653	-	-	-	-
Issued guarantees in foreign currency	1,879,965	17,876	-	1,897,841	208,393	-	-	208,393
Open letters of credit in foreign currency	2,218	-	-	2,218	-	-	-	-
Undrawn loans	3,538,871	7,616	-	3,546,487	581,929	-	-	581,929
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
<b>Total</b>	<b>5,449,042</b>	<b>25,492</b>	<b>-</b>	<b>5,474,534</b>	<b>790,657</b>	<b>-</b>	<b>-</b>	<b>790,657</b>
<b>Total credit risk exposure</b>	<b>31,410,024</b>	<b>1,775,578</b>	<b>-</b>	<b>33,185,602</b>	<b>5,618,689</b>	<b>24,093</b>	<b>-</b>	<b>5,642,782</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

**Credit risk quality according to type of financial assets (continued)**

Credit risk analysis, before and after the effect of mitigation through collateral received according to the type of financial assets on positions of assets and guarantees and commitments by internal credit rating, is as follows (continued):

Group	Gross exposure of portfolio of risk group A	Gross exposure of portfolio of risk group B	Gross exposure of portfolio of risk group C	Gross exposure of total portfolio	Net exposure of portfolio of risk group A	Net exposure of portfolio of risk group B	Net exposure of portfolio of risk group C	Net exposure of total portfolio
<b>Dec 31, 2016</b>								
<b>Assets</b>								
Cash on hand and due from banks	491,243	-	-	491,243	-	-	-	-
Deposits with other banks	23,872	-	-	23,872	-	-	-	-
Loans to financial institutions	11,472,130	416,981	-	11,889,111	-	-	-	-
Loans to other customers	10,415,684	1,095,510	-	11,511,194	2,484,106	34,930	-	2,519,036
Financial assets at fair value through profit or loss	286	-	-	286	-	-	-	-
Assets available for sale	3,353,086	-	-	3,353,086	2,442,549	-	-	2,442,549
Assets held to maturity	1,422	-	-	1,422	1,422	-	-	1,422
Other assets	5,853	396	-	6,249	3,270	396	-	3,666
<b>Total</b>	<b>25,763,576</b>	<b>1,512,887</b>	<b>-</b>	<b>27,276,463</b>	<b>4,931,347</b>	<b>35,326</b>	<b>-</b>	<b>4,966,673</b>
<b>Guarantees and commitments</b>								
Guarantees issued in HRK	32,082	-	-	32,082	-	-	-	-
Issued guarantees in foreign currency	1,964,149	18,820	-	1,982,969	437,160	-	-	437,160
Undrawn loans	3,911,236	16,941	-	3,928,177	658,819	-	-	658,819
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
<b>Total</b>	<b>5,907,802</b>	<b>35,761</b>	<b>-</b>	<b>5,943,563</b>	<b>1,096,314</b>	<b>-</b>	<b>-</b>	<b>1,096,314</b>
<b>Total credit risk exposure</b>	<b>31,671,378</b>	<b>1,548,648</b>	<b>-</b>	<b>33,220,026</b>	<b>6,027,661</b>	<b>35,326</b>	<b>-</b>	<b>6,062,987</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

**Credit risk quality according to type of financial assets (continued)**

Credit risk analysis, before and after the effect of mitigation through collateral received according to the type of financial assets on positions of assets and guarantees and commitments by internal credit rating, is as follows (continued):

Bank	Gross exposure of portfolio of risk group A	Gross exposure of portfolio of risk group B	Gross exposure of portfolio of risk group C	Gross exposure of total portfolio	Net exposure of portfolio of risk group A	Net exposure of portfolio of risk group B	Net exposure of portfolio of risk group C	Net exposure of total portfolio
<b>Jun 30, 2017</b>								
<b>Assets</b>								
Cash on hand and due from banks	1,680,018	-	-	1,680,018	-	-	-	-
Deposits with other banks	1,548	-	-	1,548	-	-	-	-
Loans to financial institutions	10,983,428	330,074	-	11,313,502	-	-	-	-
Loans to other customers	10,228,481	1,418,633	-	11,647,114	2,631,496	22,714	-	2,654,210
Assets available for sale	3,011,728	-	-	3,011,728	2,148,822	-	-	2,148,822
Other assets	2,103	1,379	-	3,482	1,598	1,379	-	2,977
<b>Total</b>	<b>25,907,306</b>	<b>1,750,086</b>	<b>-</b>	<b>27,657,392</b>	<b>4,781,916</b>	<b>24,093</b>	<b>-</b>	<b>4,806,009</b>
<b>Guarantees and commitments</b>								
Guarantees issued in HRK	27,653	-	-	27,653	-	-	-	-
Issued guarantees in foreign currency	1,879,965	17,876	-	1,897,841	208,393	-	-	208,393
Open letters of credit in foreign currency	2,218	-	-	2,218	-	-	-	-
Undrawn loans	3,538,871	7,616	-	3,546,487	581,929	-	-	581,929
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
<b>Total</b>	<b>5,449,042</b>	<b>25,492</b>	<b>-</b>	<b>5,474,534</b>	<b>790,657</b>	<b>-</b>	<b>-</b>	<b>790,657</b>
<b>Total credit risk exposure</b>	<b>31,356,348</b>	<b>1,775,578</b>	<b>-</b>	<b>33,131,926</b>	<b>5,572,573</b>	<b>24,093</b>	<b>-</b>	<b>5,596,666</b>

In the total net highest exposure of the Group and the Bank, the amount of loans to other customers of HRK 1,536,684 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 605,085 thousand, local (regional) authorities of HRK 501,210 thousand, public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 241,368 thousand and the government funds of HRK 391 thousand. An additional amount of HRK 188,630 thousand relates to receivables from majority state-owned companies (controlling influence).

The amount of assets available for sale and held to maturity is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 2,191,232 thousand for the Group and HRK 2,148,195 thousand for the Bank.

Other assets of HRK 1,102 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

**Credit risk quality according to type of financial assets (continued)**

Credit risk analysis, before and after the effect of mitigation through collateral received according to the type of financial assets on positions of assets and guarantees and commitments by internal credit rating, is as follows (continued):

Bank	Gross exposure of portfolio of risk group A	Gross exposure of portfolio of risk group B	Gross exposure of portfolio of risk group C	Gross exposure of total portfolio	Net exposure of portfolio of risk group A	Net exposure of portfolio of risk group B	Net exposure of portfolio of risk group C	Net exposure of total portfolio
<b>Dec 31, 2016</b>								
<b>Assets</b>								
Cash on hand and due from banks	490,692	-	-	490,692	-	-	-	-
Deposits with other banks	23,872	-	-	23,872	-	-	-	-
Loans to financial institutions	11,472,130	416,981	-	11,889,111	-	-	-	-
Loans to other customers	10,415,684	1,095,510	-	11,511,194	2,484,106	34,930	-	2,519,036
Assets available for sale	3,306,628	-	-	3,306,628	2,399,825	-	-	2,399,825
Other assets	2,683	396	-	3,079	2,358	396	-	2,754
<b>Total</b>	<b>25,711,689</b>	<b>1,512,887</b>	<b>-</b>	<b>27,224,576</b>	<b>4,886,289</b>	<b>35,326</b>	<b>-</b>	<b>4,921,615</b>
<b>Guarantees and commitments</b>								
Guarantees issued in HRK	32,082	-	-	32,082	-	-	-	-
Issued guarantees in foreign currency	1,964,149	18,820	-	1,982,969	437,160	-	-	437,160
Undrawn loans	3,911,236	16,941	-	3,928,177	658,819	-	-	658,819
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
<b>Total</b>	<b>5,907,802</b>	<b>35,761</b>	<b>-</b>	<b>5,943,563</b>	<b>1,096,314</b>	<b>-</b>	<b>-</b>	<b>1,096,314</b>
<b>Total credit risk exposure</b>	<b>31,619,491</b>	<b>1,548,648</b>	<b>-</b>	<b>33,168,139</b>	<b>5,982,603</b>	<b>35,326</b>	<b>-</b>	<b>6,017,929</b>

In the total net highest exposure of the Group and the Bank, the amount of loans to other customers of HRK 1,498,400 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 628,961 thousand, local (regional) authorities of HRK 395,629 thousand, public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 242,735 thousand and the government funds of HRK 1,198 thousand. An additional amount of HRK 229,877 thousand relates to receivables from majority state-owned companies (controlling influence).

The amount of assets available for sale and held to maturity is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 2,399,224 thousand for the Group and HRK 2,442,203 thousand for the Bank.

Other assets of HRK 922 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

The amount of HRK 237,245 thousand relates to a guarantee issued in foreign currency, for which the liability was assumed by the Republic of Croatia. The guarantee was removed from business records of HBOR after the reporting period date, i.e. on 13 February 2017, due to the cessation of payment obligation resulting from arbitration decision.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

**Credit risk quality according to type of financial assets (continued)**

Credit risk quality according to the gross exposure of the type of financial assets on positions of assets and guarantees and commitments by risk category:

Group	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
<b>Jun 30, 2017</b>				
<b>Assets</b>				
Cash on hand and due from banks	1,681,276	-	-	1,681,276
Deposits with other banks	1,548	-	-	1,548
Loans to financial institutions	10,878,640	104,788	330,074	11,313,502
Loans to other customers	10,023,453	205,028	1,418,633	11,647,114
Financial assets at fair value through profit or loss	284	-	-	284
Assets available for sale	3,060,953	-	-	3,060,953
Assets held to maturity	1,390	-	-	1,390
Other assets	2,805	817	1,379	5,001
<b>Total</b>	<b>25,650,349</b>	<b>310,633</b>	<b>1,750,086</b>	<b>27,711,068</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	27,653	-	-	27,653
Issued guarantees in foreign currency	1,879,965	-	17,876	1,897,841
Open letters of credit in foreign currency	2,218	-	-	2,218
Undrawn loans	3,538,871	-	7,616	3,546,487
Other irrevocable contingent liabilities	335	-	-	335
<b>Total</b>	<b>5,449,042</b>	<b>-</b>	<b>25,492</b>	<b>5,474,534</b>
<b>Total credit risk exposure</b>	<b>31,099,391</b>	<b>310,633</b>	<b>1,775,578</b>	<b>33,185,602</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

**Credit risk quality according to type of financial assets (continued)**

Credit risk quality according to the gross exposure of the type of financial assets on positions of assets and guarantees and commitments by risk category (continued):

Group	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
<b>Dec 31, 2016</b>				
<b>Assets</b>				
Cash on hand and due from banks	491,243	-	-	491,243
Deposits with other banks	23,872	-	-	23,872
Loans to financial institutions	11,259,676	212,454	416,981	11,889,111
Loans to other customers	10,249,918	165,766	1,095,510	11,511,194
Financial assets at fair value through profit or loss	286	-	-	286
Assets available for sale	3,353,086	-	-	3,353,086
Assets held to maturity	1,422	-	-	1,422
Other assets	4,528	1,325	396	6,249
<b>Total</b>	<b>25,384,031</b>	<b>379,545</b>	<b>1,512,887</b>	<b>27,276,463</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	32,082	-	-	32,082
Issued guarantees in foreign currency	1,964,149	-	18,820	1,982,969
Undrawn loans	3,911,236	-	16,941	3,928,177
Other irrevocable contingent liabilities	335	-	-	335
<b>Total</b>	<b>5,907,802</b>	<b>-</b>	<b>35,761</b>	<b>5,943,563</b>
<b>Total credit risk exposure</b>	<b>31,291,833</b>	<b>379,545</b>	<b>1,548,648</b>	<b>33,220,026</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

**Credit risk quality according to type of financial assets (continued)**

Credit risk quality according to the gross exposure of the type of financial assets on positions of assets and guarantees and commitments by risk category (continued):

Bank	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
<b>Jun 30, 2017</b>				
<b>Assets</b>				
Cash on hand and due from banks	1,680,018	-	-	1,680,018
Deposits with other banks	1,548	-	-	1,548
Loans to financial institutions	10,878,640	104,788	330,074	11,313,502
Loans to other customers	10,023,453	205,028	1,418,633	11,647,114
Assets available for sale	3,011,728	-	-	3,011,728
Other assets	1,558	545	1,379	3,482
<b>Total</b>	<b>25,596,945</b>	<b>310,361</b>	<b>1,750,086</b>	<b>27,657,392</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	27,653	-	-	27,653
Issued guarantees in foreign currency	1,879,965	-	17,876	1,897,841
Open letters of credit in foreign currency	2,218	-	-	2,218
Undrawn loans	3,538,871	-	7,616	3,546,487
Other irrevocable contingent liabilities	335	-	-	335
<b>Total</b>	<b>5,449,042</b>	<b>-</b>	<b>25,492</b>	<b>5,474,534</b>
<b>Total credit risk exposure</b>	<b>31,045,987</b>	<b>310,361</b>	<b>1,775,578</b>	<b>33,131,926</b>



Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

**Credit risk quality according to type of financial assets (continued)**

Credit risk quality according to the gross exposure of the type of financial assets on positions of assets and guarantees and commitments by risk category (continued):

Bank	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
<b>Dec 31, 2016</b>				
<b>Assets</b>				
Cash on hand and due from banks	490,692	-	-	490,692
Deposits with other banks	23,872	-	-	23,872
Loans to financial institutions	11,259,676	212,454	416,981	11,889,111
Loans to other customers	10,249,918	165,766	1,095,510	11,511,194
Assets available for sale	3,306,628	-	-	3,306,628
Other assets	1,666	1,017	396	3,079
<b>Total</b>	<b>25,332,452</b>	<b>379,237</b>	<b>1,512,887</b>	<b>27,224,576</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	32,082	-	-	32,082
Issued guarantees in foreign currency	1,964,149	-	18,820	1,982,969
Undrawn loans	3,911,236	-	16,941	3,928,177
Other irrevocable contingent liabilities	335	-	-	335
<b>Total</b>	<b>5,907,802</b>	<b>-</b>	<b>35,761</b>	<b>5,943,563</b>
<b>Total credit risk exposure</b>	<b>31,240,254</b>	<b>379,237</b>	<b>1,548,648</b>	<b>33,168,139</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

**Credit risk quality according to type of financial assets (continued)**

Aging analysis of past due but not impaired loans per class of financial asset:

Group Jun 30, 2017	Up to 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
<b>Assets</b>						
Loans to financial institutions	56,107	197	34,497	95	13,892	104,788
Loans to other customers	82,834	76,335	65	21,775	24,019	205,028
Other assets	83	33	92	340	269	817
<b>Total</b>	<b>139,024</b>	<b>76,565</b>	<b>34,654</b>	<b>22,210</b>	<b>38,180</b>	<b>310,633</b>

Group Dec 31, 2016	Up to 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
<b>Assets</b>						
Loans to financial institutions	200,364	552	4,000	17	7,521	212,454
Loans to other customers	109,035	36	8,072	803	47,820	165,766
Other assets	936	200	125	38	26	1,325
<b>Total</b>	<b>310,335</b>	<b>788</b>	<b>12,197</b>	<b>858</b>	<b>55,367</b>	<b>379,545</b>

Bank Jun 30, 2017	Up to 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
<b>Assets</b>						
Loans to financial institutions	56,107	197	34,497	95	13,892	104,788
Loans to other customers	82,834	76,335	65	21,775	24,019	205,028
Other assets	14	6	1	255	269	545
<b>Total</b>	<b>138,955</b>	<b>76,538</b>	<b>34,563</b>	<b>22,125</b>	<b>38,180</b>	<b>310,361</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

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**16. Risk management (continued)**

**16.2. Credit risk (continued)**

**Credit risk quality according to type of financial assets (continued)**

Aging analysis of past due but not impaired loans per class of financial asset (continued):

<b>Bank Dec 31, 2016</b>	<b>Up to 15 days</b>	<b>16 to 30 days</b>	<b>31 to 60 days</b>	<b>61 to 90 days</b>	<b>Over 90 days</b>	<b>Total</b>
<b>Assets</b>						
Loans to financial institutions	200,364	552	4,000	17	7,521	212,454
Loans to other customers	109,035	36	8,072	803	47,820	165,766
Other assets	862	73	38	18	26	1,017
<b>Total</b>	<b>310,261</b>	<b>661</b>	<b>12,110</b>	<b>838</b>	<b>55,367</b>	<b>379,237</b>

Since the amount of past due but not impaired receivables of the subsidiary company is immaterial, the following text contains the breakdown of changes in past due but not impaired loans of the parent company.

From total due and not impaired loans to financial institutions in the reporting period, an amount of HRK 54,172 thousand, i.e. 52%, relates to not executed extensions of short-term revolving loans.

If the total amount of due and not impaired loans to financial institutions is reduced by the debt of banks under short-term revolving loans, the remaining debt equals HRK 50,616 thousand.

From total due and not impaired loans to other customers in the reporting period, an amount of HRK 82,834 thousand, i.e. 40%, relates to delays of up to 15 days, of which the amount of HRK 14,484 thousand, i.e. 17%, was guaranteed by the Republic of Croatia.

From total due and not impaired loans to financial institutions in 2016, an amount of HRK 11,448 thousand, i.e. 5%, relates to not executed extensions of short-term revolving loans.

Due to the maturity falling on 31 December 2016 being a non-working day, an amount of HRK 193,524 thousand, i.e. 91% of due but not impaired loans to financial institutions, was collected on 2 January 2017 being the first following working day.

From total due and not impaired loans to other customers in 2016, an amount of HRK 109,035 thousand, i.e. 66%, relates to delays of up to 15 days, of which the amount of HRK 10,430 thousand, i.e. 10%, was guaranteed by the Republic of Croatia.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

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**16. Risk management (continued)**

**16.3. Liquidity risk**

The basic principles for managing HBOR's liquidity risk are determined in the internal documents as well as in the decisions and conclusions made by the Supervisory Board, the Management Board and the Asset and Liability Management Committee.

In order to manage liquidity risk, the Bank has established a system of limits, it monitors and controls limit utilisation, maintains the adequate level of liquidity reserve, continuously monitors current and planned liquidity, ensures HRK and foreign currency funds necessary for timely settlement of liabilities and for disbursements of approved loans and planned loan approvals. In terms of liquidity risk management, the Bank monitors and strives to achieve compatibility of contracted and planned placements with the respective sources according to maturity. The Bank does not hold deposits of citizens and is therefore not exposed to wide daily fluctuations in liquidity. The Bank monitors liquidity risk by implementing the sensitivity analyses and scenario analyses in regular or stressful business conditions. Early warning signals and procedures for liquidity crisis indication or occurrence are determined by the Ordinance on Liquidity Risk Management.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.3. Liquidity risk (continued)**

The table below provides an analysis of total assets and total liabilities and equity as of 30 June 2017 and 31 December 2016 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

Group Jun 30, 2017	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
<b>Assets</b>						
Cash on hand and due from banks	1,681,291	-	-	-	-	1,681,291
Deposits with other banks	1,548	-	-	-	-	1,548
Loans to financial institutions*	436,645	522,487	1,444,349	3,032,733	5,877,288	11,313,502
Loans to other customers	1,896,842	164,030	882,615	1,855,455	6,848,172	11,647,114
Financial assets at fair value through profit or loss	284	-	-	-	-	284
Assets available for sale	3,083,352	13,646	151	-	-	3,097,149
Assets held to maturity	10	7	-	-	1,373	1,390
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	55,195	55,195
Non-current assets held for sale	-	-	-	3,691	13,339	17,030
Other assets	4,968	1,428	1,185	588	1,169	9,338
<b>Total assets (1)</b>	<b>7,104,940</b>	<b>701,598</b>	<b>2,328,300</b>	<b>4,892,467</b>	<b>12,796,536</b>	<b>27,823,841</b>
<b>Liabilities</b>						
Deposits	218,527	164,133	40,694	49,456	8,168	480,978
Borrowings	201,399	244,373	1,278,757	3,552,143	10,146,909	15,423,581
Bonds payable	-	9,679	-	1,100,085	-	1,109,764
Other liabilities	156,792	26,321	89,623	176,133	187,984	636,853
<b>Total liabilities</b>	<b>576,718</b>	<b>444,506</b>	<b>1,409,074</b>	<b>4,877,817</b>	<b>10,343,061</b>	<b>17,651,176</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	2,996,968	2,996,968
Other reserves	-	-	-	-	73,187	73,187
Net profit for the year	-	-	-	-	130,750	130,750
<b>Total equity attributable to equity holders of the parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,160,537</b>	<b>10,160,537</b>
Guarantee fund	-	-	-	-	12,128	12,128
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,172,665</b>	<b>10,172,665</b>
<b>Total liabilities and total equity (2)</b>	<b>576,718</b>	<b>444,506</b>	<b>1,409,074</b>	<b>4,877,817</b>	<b>20,515,726</b>	<b>27,823,841</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>6,528,222</b>	<b>257,092</b>	<b>919,226</b>	<b>14,650</b>	<b>(7,719,190)</b>	<b>-</b>
<b>Net cumulative assets/liabilities</b>	<b>6,528,222</b>	<b>6,785,314</b>	<b>7,704,540</b>	<b>7,719,190</b>	<b>-</b>	<b>-</b>

The items with undefined maturity are included in terms over 3 years.

\* Receivables of HRK 324,789 thousand relate to reverse REPO agreements.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.3. Liquidity risk (continued)**

Group Dec 31, 2016	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
<b>Assets</b>						
Cash on hand and due from banks	491,246	-	-	-	-	491,246
Deposits with other banks	-	23,872	-	-	-	23,872
Loans to financial institutions*	684,891	441,872	1,774,961	3,131,823	5,855,564	11,889,111
Loans to other customers	1,423,234	385,784	948,959	1,850,611	6,902,606	11,511,194
Financial assets at fair value through profit or loss	286	-	-	-	-	286
Assets available for sale	3,375,864	14,074	96	-	-	3,390,034
Assets held to maturity	-	10	4	-	1,408	1,422
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	57,305	57,305
Non-current assets held for sale	-	-	27	11,450	5,753	17,230
Other assets	6,225	748	530	620	999	9,122
<b>Total assets (1)</b>	<b>5,981,746</b>	<b>866,360</b>	<b>2,724,577</b>	<b>4,994,504</b>	<b>12,823,635</b>	<b>27,390,822</b>
<b>Liabilities</b>						
Deposits	75,581	-	12,687	46,407	8,169	142,844
Borrowings	355,456	237,339	1,017,892	3,060,113	8,720,949	13,391,749
Bonds payable	-	95,932	1,888,837	-	1,120,800	3,105,569
Other liabilities	151,186	29,918	105,330	194,459	227,059	707,952
<b>Total liabilities</b>	<b>582,223</b>	<b>363,189</b>	<b>3,024,746</b>	<b>3,300,979</b>	<b>10,076,977</b>	<b>17,348,114</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	2,682,127	2,682,127
Other reserves	-	-	-	-	73,733	73,733
Net profit for the year	-	-	-	-	314,841	314,841
<b>Total equity attributable to equity holders of the parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,030,333</b>	<b>10,030,333</b>
Guarantee fund	-	-	-	-	12,375	12,375
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,042,708</b>	<b>10,042,708</b>
<b>Total liabilities and total equity (2)</b>	<b>582,223</b>	<b>363,189</b>	<b>3,024,746</b>	<b>3,300,979</b>	<b>20,119,685</b>	<b>27,390,822</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>5,399,523</b>	<b>503,171</b>	<b>(300,169)</b>	<b>1,693,525</b>	<b>(7,296,050)</b>	<b>-</b>
<b>Net cumulative assets/liabilities</b>	<b>5,399,523</b>	<b>5,902,694</b>	<b>5,602,525</b>	<b>7,296,050</b>	<b>-</b>	<b>-</b>

The items with undefined maturity are included in terms over 3 years.

\* Receivables of HRK 232,489 thousand relate to reverse REPO agreements and were placed in the up to 1 month maturity category.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.3. Liquidity risk (continued)**

The table below provides an analysis of total assets and total liabilities and equity as of 30 June 2017 and 31 December 2016 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

Bank Jun 30, 2017	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
<b>Assets</b>						
Cash on hand and due from banks	1,680,033	-	-	-	-	1,680,033
Deposits with other banks	1,548	-	-	-	-	1,548
Loans to financial institutions*	436,645	522,487	1,444,349	3,032,733	5,877,288	11,313,502
Loans to other customers	1,896,842	164,030	882,615	1,855,455	6,848,172	11,647,114
Assets available for sale	3,034,615	13,309	-	-	-	3,047,924
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	55,126	55,126
Non-current assets held for sale	-	-	-	3,691	13,339	17,030
Other assets	3,966	949	1,148	588	921	7,572
<b>Total assets (1)</b>	<b>7,053,649</b>	<b>700,775</b>	<b>2,328,112</b>	<b>4,892,467</b>	<b>12,830,970</b>	<b>27,805,973</b>
<b>Liabilities</b>						
Deposits	218,527	164,133	40,694	49,456	8,168	480,978
Borrowings	201,399	244,373	1,278,757	3,552,143	10,146,909	15,423,581
Bonds payable	-	9,679	-	1,100,085	-	1,109,764
Other liabilities	156,193	24,848	85,171	168,996	190,015	625,223
<b>Total liabilities</b>	<b>576,119</b>	<b>443,033</b>	<b>1,404,622</b>	<b>4,870,680</b>	<b>10,345,092</b>	<b>17,639,546</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	2,995,656	2,995,656
Other reserves	-	-	-	-	69,655	69,655
Net profit for the year	-	-	-	-	129,356	129,356
<b>Capital</b>					<b>10,154,299</b>	<b>10,154,299</b>
Guarantee fund	-	-	-	-	12,128	12,128
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,166,427</b>	<b>10,166,427</b>
<b>Total liabilities and total equity (2)</b>	<b>576,119</b>	<b>443,033</b>	<b>1,404,622</b>	<b>4,870,680</b>	<b>20,511,519</b>	<b>27,805,973</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>6,477,530</b>	<b>257,742</b>	<b>923,490</b>	<b>21,787</b>	<b>(7,680,549)</b>	<b>-</b>
<b>Net cumulative assets/liabilities</b>	<b>6,477,530</b>	<b>6,735,272</b>	<b>7,658,762</b>	<b>7,680,549</b>	<b>-</b>	<b>-</b>

The items with undefined maturity are included in terms over 3 years.

\* Receivables of HRK 324,789 thousand relate to reverse REPO agreements.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.3. Liquidity risk (continued)**

Bank Dec 31, 2016	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
<b>Assets</b>						
Cash on hand and due from banks	490,695	-	-	-	-	490,695
Deposits with other banks	-	23,872	-	-	-	23,872
Loans to financial institutions*	684,891	441,872	1,774,961	3,131,823	5,855,564	11,889,111
Loans to other customers	1,423,234	385,784	948,959	1,850,611	6,902,606	11,511,194
Assets available for sale	3,329,585	13,989	-	-	-	3,343,574
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	57,216	57,216
Non-current assets held for sale	-	-	27	11,450	5,753	17,230
Other assets	3,505	326	504	620	945	5,900
<b>Total assets (1)</b>	<b>5,931,910</b>	<b>865,843</b>	<b>2,724,451</b>	<b>4,994,504</b>	<b>12,858,208</b>	<b>27,374,916</b>
<b>Liabilities</b>						
Deposits	75,581	-	12,687	46,407	8,169	142,844
Borrowings	355,456	237,339	1,017,892	3,060,113	8,720,949	13,391,749
Bonds payable	-	95,932	1,888,837	-	1,120,800	3,105,569
Other liabilities	150,555	28,649	100,528	188,186	228,856	696,774
<b>Total liabilities</b>	<b>581,592</b>	<b>361,920</b>	<b>3,019,944</b>	<b>3,294,706</b>	<b>10,078,774</b>	<b>17,336,936</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	2,682,131	2,682,131
Other reserves	-	-	-	-	70,317	70,317
Net profit for the year	-	-	-	-	313,525	313,525
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,025,605</b>	<b>10,025,605</b>
Guarantee fund	-	-	-	-	12,375	12,375
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,037,980</b>	<b>10,037,980</b>
<b>Total liabilities and total equity (2)</b>	<b>581,592</b>	<b>361,920</b>	<b>3,019,944</b>	<b>3,294,706</b>	<b>20,116,754</b>	<b>27,374,916</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>5,350,318</b>	<b>503,923</b>	<b>(295,493)</b>	<b>1,699,798</b>	<b>(7,258,546)</b>	<b>-</b>
<b>Net cumulative assets/liabilities</b>	<b>5,350,318</b>	<b>5,854,241</b>	<b>5,558,748</b>	<b>7,258,546</b>	<b>-</b>	<b>-</b>

The items with undefined maturity are included in terms over 3 years.

\* Receivables of HRK 232,489 thousand relate to reverse REPO agreements and were placed in the up to 1 month maturity category.



Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.3. Liquidity risk (continued)**

The table below indicates the remaining contractual maturity of financial liabilities of the Group in undiscounted amounts:

<b>Group Jun 30, 2017</b>	<b>Up to 1 month</b>	<b>1 - 3 months</b>	<b>3 - 12 months</b>	<b>1 - 3 years</b>	<b>Over 3 years</b>	<b>Total</b>
<b>Financial liabilities</b>						
Deposits	218,527	164,133	40,694	49,456	8,168	480,978
Borrowings	227,956	217,219	1,470,281	3,979,944	11,431,284	17,326,684
Bonds payable	-	-	66,660	1,233,404	-	1,300,064
Other liabilities	156,792	26,321	89,623	176,133	187,984	636,853
<b>Total</b>	<b>603,275</b>	<b>407,673</b>	<b>1,667,258</b>	<b>5,438,937</b>	<b>11,627,436</b>	<b>19,744,579</b>

<b>Group Dec 31, 2016</b>	<b>Up to 1 month</b>	<b>1 - 3 months</b>	<b>3 - 12 months</b>	<b>1 - 3 years</b>	<b>Over 3 years</b>	<b>Total</b>
<b>Financial liabilities</b>						
Deposits	75,581	-	12,687	46,407	8,169	142,844
Borrowings	382,184	208,630	1,261,178	3,598,035	9,694,025	15,144,052
Bonds payable	-	-	2,051,330	136,040	1,188,820	3,376,190
Other liabilities	151,186	29,918	105,330	194,459	227,059	707,952
<b>Total</b>	<b>608,951</b>	<b>238,548</b>	<b>3,430,525</b>	<b>3,974,941</b>	<b>11,118,073</b>	<b>19,371,038</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.3. Liquidity risk (continued)**

The table below indicates the remaining contractual maturity of financial liabilities of the Bank in undiscounted amounts:

Bank Jun 30, 2017	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
<b>Financial liabilities</b>						
Deposits	218,527	164,133	40,694	49,456	8,168	480,978
Borrowings	227,956	217,219	1,470,281	3,979,944	11,431,284	17,326,684
Bonds payable	-	-	66,660	1,233,404	-	1,300,064
Other liabilities	156,193	24,848	85,171	168,996	190,015	625,223
<b>Total</b>	<b>602,676</b>	<b>406,200</b>	<b>1,662,806</b>	<b>5,431,800</b>	<b>11,629,467</b>	<b>19,732,949</b>

Bank Dec 31, 2016	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
<b>Financial liabilities</b>						
Deposits	75,581	-	12,687	46,407	8,169	142,844
Borrowings	382,184	208,630	1,261,178	3,598,035	9,694,025	15,144,052
Bonds payable	-	-	2,051,330	136,040	1,188,820	3,376,190
Other liabilities	150,555	28,649	100,528	188,186	228,856	696,774
<b>Total</b>	<b>608,320</b>	<b>237,279</b>	<b>3,425,723</b>	<b>3,968,668</b>	<b>11,119,870</b>	<b>19,359,860</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

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**16. Risk management (continued)**

**16.4. Market risk**

Management of market risks at the Bank implies the reduction of interest rate risk and the currency risk to a minimal level.

**16.4.1. Interest rate risk in the Bank's book**

The basic principles for managing the Bank's interest rate risk are determined in the internal documents as well as in the decisions and conclusions made by the Management Board and the Asset and Liability Management Committee. For the purpose of measurement and monitoring of interest rate risk, the Bank carries out interest rate gap analysis. Interest rate gap is calculated for certain periods according to the possibilities of interest rate changes and presents the sensitivity of the Bank to the changes in interest rates. Interest rates are structured per currency, type and value, and projections of average weighted interest rates for Bank's funds and placements are made. Depending on the results of calculations, i.e. on the previous reports, decisions are made on the types of interest rates for future borrowings and placements in order to reduce the gap to the lowest level possible. Furthermore, in addition to harmonising interest rates on sources and placements, current market conditions and movements in forecasted market indicators are also monitored.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.1. Interest rate risk in the Bank's book (continued)**

The following tables demonstrate the sensitivity of the Group to interest rates risk as of 30 June 2017 and 31 December 2016 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter. Assets and liabilities on which interest is not charged are placed into the non-interest bearing category. The tables below demonstrate the estimation of Group's interest rate risk exposure as of 30 June 2017 and 31 December 2016 which may not be indicative for the positions in other periods.

Group Jun 30, 2017	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
<b>Assets</b>							
Cash on hand and due from banks	1,258	-	-	-	-	1,680,033	1,681,291
Deposits with other banks	1,530	-	-	-	-	18	1,548
Loans to financial institutions	425,153	878,553	1,501,045	2,872,891	5,621,646	14,214	11,313,502
Loans to other customers	1,969,326	740,883	784,146	1,573,916	6,524,620	54,223	11,647,114
Financial assets at fair value through profit or loss	-	-	-	-	-	284	284
Assets available for sale	2,183,784	-	-	-	-	913,365	3,097,149
Assets held to maturity	-	-	-	-	1,373	17	1,390
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	55,195	55,195
Non-current assets held for sale	-	-	-	-	-	17,030	17,030
Other assets	-	-	-	-	-	9,338	9,338
<b>Total assets (1)</b>	<b>4,581,051</b>	<b>1,619,436</b>	<b>2,285,191</b>	<b>4,446,807</b>	<b>12,147,639</b>	<b>2,743,717</b>	<b>27,823,841</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.1. Interest rate risk in the Bank's book (continued)**

Group Jun 30, 2017	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
<b>Liabilities</b>							
Deposits	118,506	-	-	-	-	362,472	480,978
Borrowings	201,399	179,970	1,278,757	3,552,143	10,146,909	64,403	15,423,581
Bonds payable	-	-	-	1,100,085	-	9,679	1,109,764
Other liabilities	-	-	-	-	-	636,853	636,853
<b>Total liabilities</b>	<b>319,905</b>	<b>179,970</b>	<b>1,278,757</b>	<b>4,652,228</b>	<b>10,146,909</b>	<b>1,073,407</b>	<b>17,651,176</b>
<b>Equity</b>							
Founder's capital	-	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	-	2,996,968	2,996,968
Other reserves	-	-	-	-	-	73,187	73,187
Net profit for the year	-	-	-	-	-	130,750	130,750
<b>Total equity attributable to equity holders of the parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,160,537</b>	<b>10,160,537</b>
Guarantee fund	-	-	-	-	-	12,128	12,128
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,172,665</b>	<b>10,172,665</b>
<b>Total liabilities and total equity (2)</b>	<b>319,905</b>	<b>179,970</b>	<b>1,278,757</b>	<b>4,652,228</b>	<b>10,146,909</b>	<b>11,246,072</b>	<b>27,823,841</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>4,261,146</b>	<b>1,439,466</b>	<b>1,006,434</b>	<b>(205,421)</b>	<b>2,000,730</b>	<b>(8,502,355)</b>	<b>-</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.1. Interest rate risk in the Bank's book (continued)**

Group Dec 31, 2016	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
<b>Assets</b>							
Cash on hand and due from banks	551	-	-	-	-	490,695	491,246
Deposits with other banks	-	23,871	-	-	-	1	23,872
Loans to financial institutions	652,666	836,489	1,873,910	2,926,641	5,562,538	36,867	11,889,111
Loans to other customers	1,517,371	824,285	1,081,418	1,506,407	6,522,314	59,399	11,511,194
Financial assets at fair value through profit or loss	-	-	-	-	-	286	286
Assets available for sale	2,431,379	-	-	-	-	958,655	3,390,034
Assets held to maturity	-	-	-	-	1,408	14	1,422
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	57,305	57,305
Non-current assets held for sale	-	-	-	-	-	17,230	17,230
Other assets	-	-	-	-	-	9,122	9,122
<b>Total assets (1)</b>	<b>4,601,967</b>	<b>1,684,645</b>	<b>2,955,328</b>	<b>4,433,048</b>	<b>12,086,260</b>	<b>1,629,574</b>	<b>27,390,822</b>
<b>Liabilities</b>							
Deposits	-	-	-	-	-	142,844	142,844
Borrowings	355,442	171,450	1,020,722	3,059,168	8,720,949	64,018	13,391,749
Bonds payable	-	-	1,888,837	-	1,120,800	95,932	3,105,569
Other liabilities	-	-	-	-	-	707,952	707,952
<b>Total liabilities</b>	<b>355,442</b>	<b>171,450</b>	<b>2,909,559</b>	<b>3,059,168</b>	<b>9,841,749</b>	<b>1,010,746</b>	<b>17,348,114</b>
<b>Equity</b>							
Founder's capital	-	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	-	2,682,127	2,682,127
Other reserves	-	-	-	-	-	73,733	73,733
Net profit for the year	-	-	-	-	-	314,841	314,841
<b>Total equity attributable to equity holders of the parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,030,333</b>	<b>10,030,333</b>
Guarantee fund	-	-	-	-	-	12,375	12,375
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,042,708</b>	<b>10,042,708</b>
<b>Total liabilities and total equity (2)</b>	<b>355,442</b>	<b>171,450</b>	<b>2,909,559</b>	<b>3,059,168</b>	<b>9,841,749</b>	<b>11,053,454</b>	<b>27,390,822</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>4,246,525</b>	<b>1,513,195</b>	<b>45,769</b>	<b>1,373,880</b>	<b>2,244,511</b>	<b>(9,423,880)</b>	<b>-</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.1. Interest rate risk in the Bank's book (continued)**

The following tables demonstrate the sensitivity of HBOR to interest rates risk as of 30 June 2017 and 31 December 2016 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter. Assets and liabilities on which interest is not charged are placed into the non-interest bearing category. The tables below demonstrate the estimation of HBOR's interest rate risk exposure as of 30 June 2017 and 31 December 2016 which may not be indicative for the positions in other periods.

Bank Jun 30, 2017	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
<b>Assets</b>							
Cash on hand and due from banks	-	-	-	-	-	1,680,033	1,680,033
Deposits with other banks	1,530	-	-	-	-	18	1,548
Loans to financial institutions	425,153	878,553	1,501,045	2,872,891	5,621,646	14,214	11,313,502
Loans to other customers	1,969,326	740,883	784,146	1,573,916	6,524,620	54,223	11,647,114
Assets available for sale	2,135,513	-	-	-	-	912,411	3,047,924
Investments in subsidiaries	-	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	55,126	55,126
Non-current assets held for sale	-	-	-	-	-	17,030	17,030
Other assets	-	-	-	-	-	7,572	7,572
<b>Total assets (1)</b>	<b>4,531,522</b>	<b>1,619,436</b>	<b>2,285,191</b>	<b>4,446,807</b>	<b>12,146,266</b>	<b>2,776,751</b>	<b>27,805,973</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.1. Interest rate risk in the Bank's book (continued)**

Bank Jun 30, 2017	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
<b>Liabilities</b>							
Deposits	118,506	-	-	-	-	362,472	480,978
Borrowings	201,399	179,970	1,278,757	3,552,143	10,146,909	64,403	15,423,581
Bonds payable	-	-	-	1,100,085	-	9,679	1,109,764
Other liabilities	-	-	-	-	-	625,223	625,223
<b>Total liabilities</b>	<b>319,905</b>	<b>179,970</b>	<b>1,278,757</b>	<b>4,652,228</b>	<b>10,146,909</b>	<b>1,061,777</b>	<b>17,639,546</b>
<b>Equity</b>							
Founder's capital	-	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	-	2,995,656	2,995,656
Other reserves	-	-	-	-	-	69,655	69,655
Net profit for the year	-	-	-	-	-	129,356	129,356
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,154,299</b>	<b>10,154,299</b>
Guarantee fund	-	-	-	-	-	12,128	12,128
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,166,427</b>	<b>10,166,427</b>
<b>Total liabilities and total equity (2)</b>	<b>319,905</b>	<b>179,970</b>	<b>1,278,757</b>	<b>4,652,228</b>	<b>10,146,909</b>	<b>11,228,204</b>	<b>27,805,973</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>4,211,617</b>	<b>1,439,466</b>	<b>1,006,434</b>	<b>(205,421)</b>	<b>1,999,357</b>	<b>(8,451,453)</b>	<b>-</b>



Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.1. Interest rate risk in the Bank's book (continued)**

<b>Bank Dec 31, 2016</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 3 years</b>	<b>Over 3 years</b>	<b>Non- interest bearing</b>	<b>Total</b>
<b>Assets</b>							
Cash on hand and due from banks	-	-	-	-	-	490,695	490,695
Deposits with other banks	-	23,871	-	-	-	1	23,872
Loans to financial institutions	652,666	836,489	1,873,910	2,926,641	5,562,538	36,867	11,889,111
Loans to other customers	1,517,371	824,285	1,081,418	1,506,407	6,522,314	59,399	11,511,194
Assets available for sale	2,385,835	-	-	-	-	957,739	3,343,574
Investments in subsidiaries	-	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	57,216	57,216
Non-current assets held for sale	-	-	-	-	-	17,230	17,230
Other assets	-	-	-	-	-	5,900	5,900
<b>Total assets (1)</b>	<b>4,555,872</b>	<b>1,684,645</b>	<b>2,955,328</b>	<b>4,433,048</b>	<b>12,084,852</b>	<b>1,661,171</b>	<b>27,374,916</b>
<b>Liabilities</b>							
Deposits	-	-	-	-	-	142,844	142,844
Borrowings	355,442	171,450	1,020,722	3,059,168	8,720,949	64,018	13,391,749
Bonds payable	-	-	1,888,837	-	1,120,800	95,932	3,105,569
Other liabilities	-	-	-	-	-	696,774	696,774
<b>Total liabilities</b>	<b>355,442</b>	<b>171,450</b>	<b>2,909,559</b>	<b>3,059,168</b>	<b>9,841,749</b>	<b>999,568</b>	<b>17,336,936</b>
<b>Equity</b>							
Founder's capital	-	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	-	2,682,131	2,682,131
Other reserves	-	-	-	-	-	70,317	70,317
Net profit for the year	-	-	-	-	-	313,525	313,525
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,025,605</b>	<b>10,025,605</b>
Guarantee fund	-	-	-	-	-	12,375	12,375
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,037,980</b>	<b>10,037,980</b>
<b>Total liabilities and total equity (2)</b>	<b>355,442</b>	<b>171,450</b>	<b>2,909,559</b>	<b>3,059,168</b>	<b>9,841,749</b>	<b>11,037,548</b>	<b>27,374,916</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>4,200,430</b>	<b>1,513,195</b>	<b>45,769</b>	<b>1,373,880</b>	<b>2,243,103</b>	<b>(9,376,377)</b>	<b>-</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.1. Interest rate risk in the Bank's book (continued)**

Total assets, total liabilities and equity on the basis of a possibility of changes in interest rates (fixed or variable):

	<b>Group</b>		<b>Bank</b>	
	<b>Jun 30, 2017</b>	<b>Dec 31, 2016</b>	<b>Jun 30, 2017</b>	<b>Dec 31, 2016</b>
<b>Assets</b>				
Fixed interest rate assets	23,589,979	23,991,858	23,539,077	23,944,355
Variable interest rate assets	1,490,145	1,769,390	1,490,145	1,769,390
Non-interest bearing	2,743,717	1,629,574	2,776,751	1,661,171
<b>Total assets</b>	<b>27,823,841</b>	<b>27,390,822</b>	<b>27,805,973</b>	<b>27,374,916</b>
<b>Liabilities</b>				
Fixed interest rate liabilities	16,575,917	16,333,589	16,575,917	16,333,589
Variable interest rate liabilities	1,852	3,779	1,852	3,779
Non-interest bearing	11,246,072	11,053,454	11,228,204	11,037,548
<b>Total liabilities and total equity</b>	<b>27,823,841</b>	<b>27,390,822</b>	<b>27,805,973</b>	<b>27,374,916</b>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

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**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.1. Interest rate risk in the Bank's book (continued)**

**Sensitivity analysis**

Assumptions used in preparing the interest risk sensitivity analysis relate to possible changes in reference interest rates in order to assess the hypothetical effect on HBOR's profit.

Volatility of reference interest rates in the previous 12 months has been determined using the standard deviation method on the daily changes of the reference interest rates linked to EUR and USD. On the basis of the above volatility, possible changes in reference interest rates linked to EUR and USD have been established and used in the sensitivity analysis.

The analysis presents the sensitivity of interest rates to reasonably expected changes in basis points. All other variables remain constant.

The sensitivity of profit is influenced by hypothetical changes in interest rates during a period of one year based on interest bearing assets and liabilities with a variable interest rate.

Currency	Increase in b.p. Jan 1 to Jun 30, 2017	Effect on profit Jan 1 to Jun 30, 2017 HRK '000	Increase in b.p. Jan 1 to Dec 31, 2016	Effect on profit Jan 1 to Dec 31, 2016 HRK '000
EUR	+2	225	+4	535
USD	+22	822	+11	472

  

Currency	Decrease in b.p. Jan 1 to Jun 30, 2017	Effect on profit Jan 1 to Jun 30, 2017 HRK '000	Decrease in b.p. Jan 1 to Dec 31, 2016	Effect on profit Jan 1 to Dec 31, 2016 HRK '000
EUR	-2	(225)	-4	(535)
USD	-22	(822)	-11	(472)

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

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**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.2. Currency risk**

The basic principles for managing HBOR's currency risk are determined in the internal documents as well as in the decisions and conclusions made by the Management Board and the Asset and Liability Management Committee. Methods for the measurement, i.e. assessment, monitoring and management of currency risk have been established, limits and proceedings both for cases of crisis indication and occurrence have been determined, and reports necessary for comprehensive perception of this risk have been defined.

The Bank measures exposure to currency risk by monitoring open foreign currency position. In addition to the daily monitoring of the open foreign currency position and the projections of its developments, the Bank uses, for the measurement/assessment of currency risk, the VaR model as an auxiliary model and regularly reports to the bodies in charge on maximum possible losses on significant currencies. Scenario analyses and sensitivity analyses in regular or stressful business conditions are also performed.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.2. Currency risk (continued)**

Total assets and total liabilities and equity as of 30 June 2017 and 31 December 2016 in HRK and foreign currencies can be shown as follows:

Group	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
<b>Jun 30, 2017</b>						
<b>Assets</b>						
Cash on hand and due from banks	8,449	173,850	2,090	184,389	1,496,902	1,681,291
Deposits with other banks	-	18	1,530	1,548	-	1,548
Loans to financial institutions	-	6,483,559	-	6,483,559	4,829,943	11,313,502
Loans to other customers	460,219	8,243,924	-	8,704,143	2,942,971	11,647,114
Financial assets at fair value through profit or loss	-	284	-	284	-	284
Assets available for sale	-	850,684	-	850,684	2,246,465	3,097,149
Assets held to maturity	-	1,390	-	1,390	-	1,390
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	55,195	55,195
Non-current assets held for sale	-	-	-	-	17,030	17,030
Other assets	-	436	-	436	8,902	9,338
<b>Total assets (1)</b>	<b>468,668</b>	<b>15,754,145</b>	<b>3,620</b>	<b>16,226,433</b>	<b>11,597,408*</b>	<b>27,823,841</b>
<b>Liabilities</b>						
Deposits	20,976	222,935	2,300	246,211	234,767	480,978
Borrowings	313,420	15,110,161	-	15,423,581	-	15,423,581
Bonds payable	-	1,109,764	-	1,109,764	-	1,109,764
Other liabilities	896	10,953	2,688	14,538	622,315	636,853
<b>Total liabilities</b>	<b>335,292</b>	<b>16,453,813</b>	<b>4,988</b>	<b>16,794,094</b>	<b>857,082</b>	<b>17,651,176</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	2,996,968	2,996,968
Other reserves	-	-	-	-	73,187	73,187
Net profit for the year	-	-	-	-	130,750	130,750
<b>Total equity attributable to equity holders of the parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,160,537</b>	<b>10,160,537</b>
Guarantee fund	-	12,128	-	12,128	-	12,128
<b>Total equity</b>	<b>-</b>	<b>12,128</b>	<b>-</b>	<b>12,128</b>	<b>10,160,537</b>	<b>10,172,665</b>
<b>Total liabilities and total equity (2)</b>	<b>335,292</b>	<b>16,465,941</b>	<b>4,988</b>	<b>16,806,222</b>	<b>11,017,619</b>	<b>27,823,841</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>133,376</b>	<b>(711,796)</b>	<b>(1,368)**</b>	<b>(579,789)</b>	<b>579,789</b>	<b>-</b>

\*Amounts linked to a one-way currency clause represent HRK 201,288 thousand.

\*\*Reported gap is a result of provisions made for issued foreign currency guarantees in other foreign currencies stated under "Other liabilities".

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.2. Currency risk (continued)**

Group	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
<b>Dec 31, 2016</b>						
<b>Assets</b>						
Cash on hand and due from banks	1,606	301,338	1,584	304,528	186,718	491,246
Deposits with other banks	20,581	-	3,291	23,872	-	23,872
Loans to financial institutions	-	6,655,483	-	6,655,483	5,233,628	11,889,111
Loans to other customers	527,661	7,768,328	-	8,295,989	3,215,205	11,511,194
Financial assets at fair value through profit or loss	-	286	-	286	-	286
Assets available for sale	14,686	1,100,197	-	1,114,883	2,275,151	3,390,034
Assets held to maturity	-	1,422	-	1,422	-	1,422
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	57,305	57,305
Non-current assets held for sale	-	-	-	-	17,230	17,230
Other assets	-	369	-	369	8,753	9,122
<b>Total assets (1)</b>	<b>564,534</b>	<b>15,827,423</b>	<b>4,875</b>	<b>16,396,832</b>	<b>10,993,990*</b>	<b>27,390,822</b>
<b>Liabilities</b>						
Deposits	48,380	42,778	3,459	94,617	48,227	142,844
Borrowings	315,434	13,076,315	-	13,391,749	-	13,391,749
Bonds payable	-	3,105,569	-	3,105,569	-	3,105,569
Other liabilities	163	9,664	2,885	12,712	695,240	707,952
<b>Total liabilities</b>	<b>363,977</b>	<b>16,234,326</b>	<b>6,344</b>	<b>16,604,647</b>	<b>743,467</b>	<b>17,348,114</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	2,682,127	2,682,127
Other reserves	-	-	-	-	73,733	73,733
Net profit for the year	-	-	-	-	314,841	314,841
<b>Total equity attributable to equity holders of the parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,030,333</b>	<b>10,030,333</b>
Guarantee fund	-	12,375	-	12,375	-	12,375
<b>Total equity</b>	<b>-</b>	<b>12,375</b>	<b>-</b>	<b>12,375</b>	<b>10,030,333</b>	<b>10,042,708</b>
<b>Total liabilities and total equity (2)</b>	<b>363,977</b>	<b>16,246,701</b>	<b>6,344</b>	<b>16,617,022</b>	<b>10,773,800</b>	<b>27,390,822</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>200,557</b>	<b>(419,278)</b>	<b>(1,469)**</b>	<b>(220,190)</b>	<b>220,190</b>	<b>-</b>

\*Amounts linked to a one-way currency clause represent HRK 249,278 thousand.

\*\*Reported gap is a result of provisions made for issued foreign currency guarantees in other foreign currencies stated under "Other liabilities".

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.2. Currency risk (continued)**

Total assets and total liabilities and equity as of 30 June 2017 and 31 December 2016 in HRK and foreign currencies can be shown as follows:

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
<b>Jun 30, 2017</b>						
<b>Assets</b>						
Cash on hand and due from banks	8,449	173,850	2,090	184,389	1,495,644	1,680,033
Deposits with other banks	-	18	1,530	1,548	-	1,548
Loans to financial institutions	-	6,483,559	-	6,483,559	4,829,943	11,313,502
Loans to other customers	460,219	8,243,924	-	8,704,143	2,942,971	11,647,114
Assets available for sale	-	838,568	-	838,568	2,209,356	3,047,924
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	55,126	55,126
Non-current assets held for sale	-	-	-	-	17,030	17,030
Other assets	-	-	-	-	7,572	7,572
<b>Total assets (1)</b>	<b>468,668</b>	<b>15,739,919</b>	<b>3,620</b>	<b>16,212,207</b>	<b>11,593,766*</b>	<b>27,805,973</b>
<b>Liabilities</b>						
Deposits	20,976	222,935	2,300	246,211	234,767	480,978
Borrowings	313,420	15,110,161	-	15,423,581	-	15,423,581
Bonds payable	-	1,109,764	-	1,109,764	-	1,109,764
Other liabilities	700	4,242	2,641	7,583	617,640	625,223
<b>Total liabilities</b>	<b>335,096</b>	<b>16,447,102</b>	<b>4,941</b>	<b>16,787,139</b>	<b>852,407</b>	<b>17,639,546</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	2,995,656	2,995,656
Other reserves	-	-	-	-	69,655	69,655
Net profit for the year	-	-	-	-	129,356	129,356
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,154,299</b>	<b>10,154,299</b>
Guarantee fund	-	12,128	-	12,128	-	12,188
<b>Total equity</b>	<b>-</b>	<b>12,128</b>	<b>-</b>	<b>12,128</b>	<b>10,154,299</b>	<b>10,166,427</b>
<b>Total liabilities and total equity (2)</b>	<b>335,096</b>	<b>16,459,230</b>	<b>4,941</b>	<b>16,799,267</b>	<b>11,006,706</b>	<b>27,805,973</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>133,572</b>	<b>(719,311)</b>	<b>(1,321)**</b>	<b>(587,060)</b>	<b>587,060</b>	<b>-</b>

\* Amounts linked to a one-way currency clause represent HRK 201,288 thousand.

\*\*Reported gap is a result of provisions made for issued foreign currency guarantees in other foreign currencies stated under "Other liabilities".

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.2. Currency risk (continued)**

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
<b>Dec 31, 2016</b>						
<b>Assets</b>						
Cash on hand and due from banks	1,606	301,338	1,584	304,528	186,167	490,695
Deposits with other banks	20,581	-	3,291	23,872	-	23,872
Loans to financial institutions	-	6,655,483	-	6,655,483	5,233,628	11,889,111
Loans to other customers	527,661	7,768,328	-	8,295,989	3,215,205	11,511,194
Assets available for sale	14,686	1,089,520	-	1,104,206	2,239,368	3,343,574
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	57,216	57,216
Non-current assets held for sale	-	-	-	-	17,230	17,230
Other assets	-	-	-	-	5,900	5,900
<b>Total assets (1)</b>	<b>564,534</b>	<b>15,814,669</b>	<b>4,875</b>	<b>16,384,078</b>	<b>10,990,838*</b>	<b>27,374,916</b>
<b>Liabilities</b>						
Deposits	48,380	42,778	3,459	94,617	48,227	142,844
Borrowings	315,433	13,076,316	-	13,391,749	-	13,391,749
Bonds payable	-	3,105,569	-	3,105,569	-	3,105,569
Other liabilities	-	2,895	2,840	5,735	691,039	696,774
<b>Total liabilities</b>	<b>363,813</b>	<b>16,227,558</b>	<b>6,299</b>	<b>16,597,670</b>	<b>739,266</b>	<b>17,336,936</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	2,682,131	2,682,131
Other reserves	-	-	-	-	70,317	70,317
Net profit for the year	-	-	-	-	313,525	313,525
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,025,605</b>	<b>10,025,605</b>
Guarantee fund	-	12,375	-	12,375	-	12,375
<b>Total equity</b>	<b>-</b>	<b>12,375</b>	<b>-</b>	<b>12,375</b>	<b>10,025,605</b>	<b>10,037,980</b>
<b>Total liabilities and total equity (2)</b>	<b>363,813</b>	<b>16,239,933</b>	<b>6,299</b>	<b>16,610,045</b>	<b>10,764,871</b>	<b>27,374,916</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>200,721</b>	<b>(425,264)</b>	<b>(1,424)**</b>	<b>(225,967)</b>	<b>225,967</b>	<b>-</b>

\*Amounts linked to a one-way currency clause represent HRK 249,278 thousand.

\*\*Reported gap is a result of provisions made for issued foreign currency guarantees in other foreign currencies stated under "Other liabilities".



Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

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**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.2. Currency risk (continued)**

**Sensitivity analysis**

Sensitivity analysis of the Bank's total assets and total liabilities to fluctuations in foreign exchange rates is carried out for those foreign currencies that represent Bank's significant currencies as at the reporting date.

An assumption of reasonably possible fluctuations in EUR exchange rates against HRK was used in the foreign currency risk sensitivity analysis, with the other variables remaining stable, in order to assess the hypothetical effect on HBOR's profit as of 30 June 2017.

Volatility of the exchange rate EUR/HRK, determined using the standard deviation method on the changes of the foreign exchange rate EUR/HRK, equalled 1.5% in the previous 12 months.

The effect of the assumed changes in the foreign exchange rate EUR/HRK by total asset, total liabilities and equity items denominated or indexed to EUR on HBOR's profits is stated below.

	Change in currency rate Jan 1 to Jun30, 2017 %	Effect on profit Jan 1 to Jun 30, 2017 HRK' 000	Change in currency rate Jan 1 to Dec 31, 2016 %	Effect on profit Jan 1 to Dec 31, 2016 HRK' 000
EUR	+1.5	(2,954)	+1.5%	5,912
EUR	-1.5	4,341	-1.5%	(5,020)

**16.5. Operational risk**

The Bank has established a framework for operational risk management that is, to a considerable extent, aligned with regulations prescribed by the Croatian National Bank applicable to the Bank's business and good banking practices in the area of risk management that was introduced in 2012.

The basic principles of operational risk management were identified in the umbrella act, Operational Risk Management Policies. The structure of management and accountability in the system was set up, the approach for the calculation of capital requirements for operational risk was determined, the recording and reporting system was established and the identification, measurement, assessment, control and monitoring of operational risk were put in place.

The Committee for IT management was established in order to monitor IT system performance with the purpose of IT resources management by setting the appropriate level of efficiency and security of IT for providing, among other things, appropriate management of risks arising from IT technology utilisation. The IT system security control function is in charge of monitoring the security of the IT system. Within this function, a system for the management of business continuity was established.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

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**16. Risk management (continued)**

**16.6. Outsourcing risk**

The aim of outsourcing is to reduce the operating costs, to achieve a higher level of services and to use the professional know-how of service providers in the performance of daily activities.

The Bank manages the outsourcing risk on the basis of internal documents that are in compliance with the regulations prescribed by the Croatian National Bank and the good banking practice applicable to the operations of the Bank. Internal documents determine the management of this risk, the procedures for the outsourcing of activities to the service providers, the rules for the management of relations with the service providers and the obligation to reduce the risk to the lowest level possible.

Central records of outsourced activities have been established and reports on materially significant outsourced activities are submitted to the Management Board and the Supervisory Board of the Bank on an annual basis.

Notes to the Consolidated Interim Condensed Financial Statements include  
significant accounting policies and other explanations  
for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

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**17. Fair value of financial assets and financial liabilities initially recognised and measured at fair value**

Fair value represents the price that would be received to sell an asset or paid to transfer a liability of the Group in an orderly transaction at the measurement date in the principal or the most advantageous market under current market conditions.

Basic price is an exit price, regardless of whether that price is directly observable or estimated using another valuation technique.

At initial recognition, when an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price).

The fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price).

If another IFRS or legal provision requires or permits an entity to measure an asset or a liability initially at fair value and the transaction price differs from fair value, the Group shall recognise the resulting gain or loss in profit or loss unless otherwise specified.

For measuring fair value, the Group is maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The Group selects inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability.

If an asset or a liability measured at fair value has a bid price and an ask price (e.g. an input from a dealer market), the Group uses the price within the bid-ask spread as the most representative of fair value.

Pursuant to aforesaid, the carrying amounts of cash and balances with the Croatian National Bank approximately present their fair values.

The estimated fair value of deposits with other banks approximates their carrying amounts since all deposits mature up to 90 days.

Loans and advances to financial institutions and other customers are presented net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. The interests subsidies that are recognised as deferred income in discounted amounts and presented within other liabilities are taken into account in estimating fair value. The fair value of HRK loans with one-way currency clause is assessed as described under the "Foreign currency transactions and foreign currency clause" paragraph.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

**17. Fair value of financial assets and financial liabilities initially recognised and measured at fair value (continued)**

The Group's long-term borrowings have no quoted market price, and their fair value is estimated as the present value of future cash flows, discounted at interest rates in effect at the Statement of Financial Position date for new borrowings of a similar nature and with a similar remaining maturity. As the Group's long term borrowings mostly bear variable interest, the Group estimates that their carrying amount is reasonable approximation of fair value.

The fair value of bonds issued by HBOR on 30 June 2017 is stated in Note 13 and is presented by using level 2 inputs that are observable at Bloomberg service on the basis of mid-rate of Bloomberg Generic (BGN) prices.

BGN or Bloomberg Generic price is the simple average price that includes indicative prices and executable prices. The mid-rate is the average between the quoted "ask" price and the "bid" price.

The Group takes care of the fair value hierarchy presentation that comprises three levels of inputs to valuation techniques used to measure fair value as follows:

	Level 1	Level 2	Level 3
<b>Inputs:</b>	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.	Unobservable inputs for the asset or liability or adjusted market inputs.

The Group discloses transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer occurred.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**17. Fair value of financial assets and financial liabilities initially recognised and measured at fair value (continued)**

The Group measures certain financial assets and financial liabilities at fair value at the end of each reporting period:

Group	Jun 30, 2017			Dec 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Financial assets at fair value through profit or loss:</b>						
Shares in investment funds recognised at fair value through profit or loss	284	-	-	286	-	-
<b>Total financial assets at fair value through profit or loss</b>	<b>284</b>	<b>-</b>	<b>-</b>	<b>286</b>	<b>-</b>	<b>-</b>
<b>Assets available for sale:</b>						
<b>Debt instruments:</b>						
<b>Listed debt instruments:</b>						
Bonds of the Ministry of Finance of the Republic of Croatia	884,031	-	-	925,887	-	-
Financial institution bonds	878	-	-	910	-	-
Corporate bonds	1,143	-	-	1,161	-	-
Treasury bills of the Ministry of Finance of the Republic of Croatia	1,293,042	-	-	1,500,420	-	-
Accrued interest	13,802	-	-	14,495	-	-
<b>Unlisted debt instruments:</b>						
Corporate bonds	-	-	496	-	-	502
Accrued interest	-	-	131	-	-	99
<b>Total debt instruments</b>	<b>2,192,896</b>	<b>-</b>	<b>627</b>	<b>2,442,873</b>	<b>-</b>	<b>601</b>
<b>Equity instruments:</b>						
<b>Listed equity instruments:</b>						
Corporate shares	10,938	-	-	10,938	-	-
<b>Unlisted equity instruments:</b>						
Investment in shares of foreign companies	-	32	-	-	32	-
Investment in financial institutions shares	-	161	-	-	161	-
Shares of foreign financial institutions – EIF	-	25,065	-	-	25,815	-
Corporate shares	-	-	-	-	-	-
<b>Total equity instruments</b>	<b>10,938</b>	<b>25,258</b>	<b>-</b>	<b>10,938</b>	<b>26,008</b>	<b>-</b>
<b>Investments in investment funds:</b>						
Shares classified as assets available for sale	867,430	-	-	909,614	-	-
<b>Total investments in investment funds</b>	<b>867,430</b>	<b>-</b>	<b>-</b>	<b>909,614</b>	<b>-</b>	<b>-</b>
<b>Total assets available for sale</b>	<b>3,071,264</b>	<b>25,258</b>	<b>627</b>	<b>3,363,425</b>	<b>26,008</b>	<b>601</b>

Treasury Bills of the Ministry of Finance of the Republic of Croatia were classified within Level 1 of the fair value hierarchy because credit institutions in the country started to list prices at Bloomberg, and quoted market price is used as the valuation technique.

Debt Instruments: Corporate Bonds were classified within Level 3 of the fair value hierarchy. The valuation technique used was the method of the discounted cash flows based on market interest rates, spread linked to internal credit-rating and internally determined spread linked to financial instrument liquidity.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**17. Fair value of financial assets and financial liabilities initially recognised and measured at fair value (continued)**

Bank	Jun 30, 2017			Dec 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Assets available for sale:</b>						
<b>Debt instruments:</b>						
<b>Listed debt instruments:</b>						
Bonds of the Ministry of Finance of the Republic of Croatia	841,975	-	-	884,914	-	-
Treasury bills of the Ministry of finance of the Republic of Croatia	1,293,042	-	-	1,500,420	-	-
Accrued interest	13,178	-	-	13,890	-	-
<b>Unlisted debt instruments:</b>						
Corporate bonds	-	-	496	-	-	502
Accrued interest	-	-	131	-	-	99
<b>Total debt instruments</b>	<b>2,148,195</b>	<b>-</b>	<b>627</b>	<b>2,399,224</b>	<b>-</b>	<b>601</b>
<b>Equity instruments:</b>						
<b>Listed equity instruments:</b>						
Corporate shares	10,938	-	-	10,938	-	-
<b>Unlisted equity instruments:</b>						
Investment in shares of foreign companies	-	32	-	-	32	-
Investment in financial institutions shares	-	161	-	-	161	-
Shares of foreign financial institutions – EIF	-	25,065	-	-	25,815	-
Corporate shares	-	-	-	-	-	-
<b>Total equity instruments</b>	<b>10,938</b>	<b>25,258</b>		<b>10,938</b>	<b>26,008</b>	<b>-</b>
<b>Investments in investment funds:</b>						
Shares classified as assets available for sale	862,906	-	-	906,803	-	-
<b>Total investments in investment funds</b>	<b>862,906</b>	<b>-</b>	<b>-</b>	<b>906,803</b>	<b>-</b>	<b>-</b>
<b>Total assets available for sale</b>	<b>3,022,039</b>	<b>25,258</b>	<b>627</b>	<b>3,316,965</b>	<b>26,008</b>	<b>601</b>

Treasury Bills of the Ministry of Finance of the Republic of Croatia were classified within Level 1 of the fair value hierarchy because credit institutions in the country started to list prices at Bloomberg, and quoted market price is used as the valuation technique.

Debt Instruments: Corporate Bonds were classified within Level 3 of the fair value hierarchy. The valuation technique used was the method of the discounted cash flows based on market interest rates, spread linked to internal credit-rating and internally determined spread linked to financial instrument liquidity.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

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**17. Fair value of financial assets and financial liabilities (continued)**

**17.1. Fair value of financial assets and financial liabilities carried at amortized cost**

The Management Board estimates that the carrying amounts of financial assets and financial liabilities carried at amortized cost are a reasonable approximation of fair value. The fair value of bonds payable that is determined by using adjusted observable prices is presented in Note 13.

**18. Reporting by segments**

General information on segments is given in relation to business segments of the Group.

Since the Group does not allocate administrative costs and equity by segments, the profitability of segments is not presented.

Assets and liabilities by segments are presented in net terms, i.e. gross after impairment and provisioning, and before the effect of mitigation through collateral received.

Business operations of segments are divided in terms of organisation and management. Each segment as a whole provides various products and services and operates in various markets.

**Business segments:**

The Group has following business segments:

<b>Segment:</b>	<b>Business activities of the segment include:</b>
Banking activities	Financing reconstruction and development of the Croatian economy, financing of infrastructure, export promotion, support for the development of small and medium-sized companies, environmental protection, and export credit insurance of Croatian goods and services against non-market risks for and on behalf of the Republic of Croatia.
Insurance activities	Insurance of foreign and domestic short-term receivables of business entities relating to deliveries of goods and services
Other	Preparation of analyses, credit risk assessment and providing information on creditworthiness

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**18. Reporting by segments (continued)**

<b>Jun 30, 2017</b>	<b>Banking activities</b>	<b>Insurance activities</b>	<b>Other activities</b>	<b>Unallocated</b>	<b>Total</b>
Net interest income	235,859	829	-	-	236,688
Net fee income	13,383	661	623	-	14,667
Net income/(expenses) from financial operations	(7,574)	(237)	(2)	-	(7,813)
Net premiums earned	-	3,356	-	-	3,356
Other income	4,970	42	140	(146)	5,006
<b>Income from operating activities</b>	<b>246,638</b>	<b>4,651</b>	<b>761</b>	<b>(146)</b>	<b>251,904</b>
Operating costs	(74,132)	(2,752)	(553)	146	(77,291)
Impairment loss and provisions	(43,150)	41	(16)	-	(43,125)
Expenses for insured cases	-	(69)	-	-	(69)
Net change in provisions	-	(534)	-	-	(534)
Other expenses	-	(135)	-	-	(135)
<b>Operating expenses</b>	<b>(117,282)</b>	<b>(3,449)</b>	<b>(569)</b>	<b>146</b>	<b>(121,154)</b>
<b>Profit/(loss) before income tax</b>	<b>129,356</b>	<b>1,202</b>	<b>192</b>	<b>-</b>	<b>130,750</b>
Income tax	-	-	-	-	-
<b>Profit/(loss) for the year</b>	<b>129,356</b>	<b>1,202</b>	<b>192</b>	<b>-</b>	<b>130,750</b>
Assets of segment	27,805,973	53,491	1,034	(36,657)	27,823,841
<b>Total assets</b>	<b>27,805,973</b>	<b>53,491</b>	<b>1,034</b>	<b>(36,657)</b>	<b>27,823,841</b>
Liabilities of segment	17,639,546	11,574	87	(31)	17,651,176
Total equity	10,166,427	4,417	647	1,174	10,172,665
<b>Total liabilities and total equity</b>	<b>27,805,973</b>	<b>15,991</b>	<b>734</b>	<b>1,143</b>	<b>27,823,841</b>

Intra-group transactions are presented under "Unallocated".

For the purposes of this Note, Net income/(expense) from financial activities is reported as an income item, regardless the actual realisation, to enable comparison of the amounts stated in the Statement of profit or loss and other comprehensive income.

The Group decided to apply a simple approach of stating operating segments by taking into consideration the main business model of each member of the Group as previously described in this Note.



Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)  
(All amounts are expressed in HRK thousand)

**18. Reporting by segments (continued)**

<b>Jun 30, 2016</b>	<b>Banking activities</b>	<b>Insurance activities</b>	<b>Other activities</b>	<b>Unallocated</b>	<b>Total</b>
Net interest income	199,953	837	-	-	200,790
Net fee income	12,601	618	488	-	13,707
Net income/(expenses) from financial operations	(10,816)	23	2	-	(10,791)
Net premiums earned	-	3,257	-	-	3,257
Other income	3,547	33	148	(156)	3,572
<b>Income from operating activities</b>	<b>205,285</b>	<b>4,768</b>	<b>638</b>	<b>(156)</b>	<b>210,535</b>
Operating costs	(77,050)	(2,680)	(529)	156	(80,103)
Impairment loss and provisions	(21,000)	33	9	-	(20,958)
Expenses for insured cases	-	(1,509)	-	-	(1,509)
Net change in provisions	-	57	-	-	57
Other expenses	-	(344)	-	-	(344)
<b>Operating expenses</b>	<b>(98,050)</b>	<b>(4,443)</b>	<b>(520)</b>	<b>156</b>	<b>(102,857)</b>
<b>Profit/(loss) before income tax</b>	<b>107,235</b>	<b>325</b>	<b>118</b>	<b>-</b>	<b>107,678</b>
Income tax	-	-	-	-	-
<b>Profit/(loss) for the year</b>	<b>107,235</b>	<b>325</b>	<b>118</b>	<b>-</b>	<b>107,678</b>
<b>Dec 31, 2016</b>					
Assets of segment	27,374,916	51,667	895	(36,656)	27,390,822
<b>Total assets</b>	<b>27,374,916</b>	<b>51,667</b>	<b>895</b>	<b>(36,656)</b>	<b>27,390,822</b>
Liabilities of segment	17,336,936	11,049	159	(30)	17,348,114
Total equity	10,037,980	3,119	436	1,173	10,042,708
<b>Total liabilities and total equity</b>	<b>27,374,916</b>	<b>14,168</b>	<b>595</b>	<b>1,143</b>	<b>27,390,822</b>

Intra-group transactions are presented under "Unallocated".

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

## 19. Capital management

The primary objectives of the Bank's capital management are to ensure the presumptions of going concern and to respect regulatory and contracted demands imposed by creditors regarding a certain capital adequacy level.

The Bank has identified own funds as a manageable capital category.

Own funds have to be, at every moment, at least at the level of share capital or at the level that ensures that the capital adequacy ratio is at least 8% and that it is sufficient for covering capital requirements regarding business risks.

Own funds consist of original own funds (Tier 1) and additional own funds (Tier 2).

The Bank has determined measures for the implementation and monitoring of the capital management policy as follows:

- At every reporting date, own funds have to be at least at the level of founder's capital for the reporting period.
- The capital adequacy ratio at the reporting date has to be at the level prescribed for the banks in the Republic of Croatia as well as at the level stated within regular financial covenants determined in loan contracts and contracts with special financial institutions that HBOR has concluded as a borrower.

In regard to the calculation of the capital adequacy ratio HBOR voluntarily decided to apply the relevant bank regulation previously prescribed by the Croatian National Bank, in accordance with Basel I and the Bank's internal acts.

	Group		Bank	
	Jun 30, 2017	Dec 31, 2016	Jun 30, 2017	Dec 31, 2016
Original own funds – Tier 1	10,086,038	9,956,604	10,084,644	9,955,288
Additional own funds – Tier 2	318,410	333,571	318,410	333,571
<b>Total own funds</b>	<b>10,404,448</b>	<b>10,290,175</b>	<b>10,403,054</b>	<b>10,288,859</b>
Risk weighted assets	16,385,191	16,415,582	16,416,584	16,447,428
Capital requirements for currency risk	239,362	609,631	227,348	597,377
<b>Total capital requirements</b>	<b>16,624,553</b>	<b>17,025,213</b>	<b>16,643,932</b>	<b>17,044,805</b>
	%	%	%	%
<b>Capital ratio (Tier 1)</b>	<b>60.67</b>	<b>58.48</b>	<b>60.59</b>	<b>58.41</b>
<b>Capital adequacy ratio</b>	<b>62.58</b>	<b>60.44</b>	<b>62.50</b>	<b>60.36</b>
	HRK '000	HRK '000	HRK '000	HRK '000
<b>Own funds needed for ensuring capital adequacy according to regulatory requirements</b>	<b>1,329,964</b>	<b>1,362,017</b>	<b>1,331,515</b>	<b>1,363,584</b>

Minimum capital adequacy ratio as of the reporting date was 8% (31 December 2016: 8%).

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2017 (continued)

(All amounts are expressed in HRK thousand)

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**19. Capital management (continued)**

Due to the extensive changes in the existing support application for the Bank's operations, the Management Board has prolonged the transitional period for the implementation and testing of new applications and the use will begin with respect to the first reporting period after the implementation of the software solution for the calculation of the adequacy ratio of own funds. Until then, the capital adequacy and exposure calculations will be made in the existing manner.

The Management Board of the Group does not expect any adverse effects on the level of capital adequacy as a result of application of the new regulations for credit institutions, taking into account that the Bank's capital adequacy ratio as of 30 June was 8 times higher than the prescribed one. This was primarily due to the model of operation and its orientation to the lending operations.

**20. Events after the reporting period date**

**20.1 Appointment of the Management Board**

After the reporting period date, by the Decision of the Supervisory Board of 31 July 2017, Tamara Perko, MSc was appointed President of the Management Board of HBOR and Martina Jus was appointed Member of the Management Board of HBOR both starting from 1 August 2017 until the implementation of the selection and appointment procedure for the members of the Management Board of HBOR pursuant to the Decree on the Criteria for the Implementation of the Selection and Appointment Procedures of Candidates for Presidents and Members of Management Boards of Companies and other Legal Entities of Strategic and Special Interest for the Republic of Croatia (Official Gazette of the Republic of Croatia, no. 19/17), however the duration of the appointments shall not exceed six months.

**20.2. Appointment of the Audit Committee**

After the reporting period date, by the Decision of the Supervisory Board of 25 July 2017, the following members of the Audit Committee were appointed:

- Prof.DSc. Lajoš Žager, Dean of the Faculty of Economics and Business of the University of Zagreb, acting as the Chairman of the Audit Committee,
- Grozdana Perić, Chairman of the Finance and Central Budget Committee of the Croatian Parliament, acting as the Vice Chairman of the Audit Committee,
- Aurora Volarević, Director of Internal Controls, Audit and Risk in Hrvatski telekom d.d., acting as a Member of the Audit Committee.

**20.3. Appointment and Dismissal of a Member of the Supervisory Board**

After the reporting period date, by the Decision of the Croatian Parliament of 14 July 2017, Ms Ivana Ninčević-Lesandrić was dismissed from her position of a Member of the Supervisory Board of HBOR from among the Members of the Croatian Parliament. By the same Decision, Ms Božica Makar was appointed a Member of the Supervisory Board of HBOR from among the Members of the Croatian Parliament.

On 4 August 2017, the Government of the Republic of Croatia made the decision on the appointment of Predrag Štromar, Deputy Prime Minister of the Republic of Croatia and Minister of Construction and Physical Planning, as a Member of the Supervisory Board of HBOR.

**Appendix - financial performance of the HKO Group**  
**Statement of Profit or Loss and Other Comprehensive Income**  
**for the period 1 January – 30 June (unaudited)**  
(All amounts are expressed in HRK thousand)

	Jun 30, 2017	Jun 30, 2016
<b>Premium earned</b>		
Gross premium written	5,153	5,956
Premium impairment allowance originated and reserved on collection	(42)	-
Gross outward reinsurance premium	(2,080)	(2,474)
<b>Net premium written</b>	<b>3,031</b>	<b>3,482</b>
Changes in the gross unearned premium reserve	669	84
Changes in the gross unearned premium reserve, reinsurer's share	(386)	(309)
<b>Net premium earned</b>	<b>3,314</b>	<b>3,257</b>
Fee and commission income	1,284	1,106
Net investment income	577	855
Other operating income	36	25
<b>Net income</b>	<b>5,211</b>	<b>5,243</b>
Gross expense for returned premiums	(215)	(772)
Reinsurer's share	80	428
Gross reserve for returned premiums	(204)	(22)
Reinsurer's share	81	(21)
<b>Net expense and reserve for returned premiums</b>	<b>(258)</b>	<b>(387)</b>
Claims incurred	(111)	(1,607)
Claims incurred, reinsurer's share	42	98
Change in the claims provision	(595)	(515)
Change in the claims provision, share of reinsurance	184	615
<b>Net claims incurred</b>	<b>(480)</b>	<b>(1,409)</b>
Marketing and provision expenses	(225)	(352)
Administrative expenses	(2,862)	(2,632)
Other operating expenses	(5)	(27)
Net exchange differences other than those on financial instruments	13	7
<b>Profit before income tax</b>	<b>1,394</b>	<b>443</b>
Income tax	-	-
<b>Profit/(loss) for the year</b>	<b>1,394</b>	<b>443</b>
<b>Other comprehensive income</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Gains on revaluation of financial assets available for sale	1,236	968
Decrease in the fair value of financial assets available for sale	(1,100)	(270)
Transfer of realised gains on asset available for sale to statement of profit or loss	(1)	(163)
Transfer of realised losses on asset available for sale to statement of profit or loss	6	-
Deferred tax	(25)	(107)
<b>Total items that may be reclassified subsequently to profit or loss:</b>	<b>116</b>	<b>428</b>
<b>Other comprehensive income after income tax</b>	<b>116</b>	<b>428</b>
<b>Total comprehensive income after income tax</b>	<b>1,510</b>	<b>871</b>
<b>Attributable to:</b>		
Equity holders of the parent	1,510	871

Appendix - financial performance of the HKO Group  
Statement of Financial Position as of (unaudited)  
(All amounts are expressed in HRK thousand)

	Jun 30, 2017	Dec 31, 2016
<b>Assets</b>		
<b>Non-current assets</b>		
Property and equipment	64	86
Intangible assets	6	5
Held to maturity investments	1,390	1,422
Deferred tax	247	54
<b>Total non-current assets</b>	<b>1,707</b>	<b>1,567</b>
<b>Current assets</b>		
Investments available for sale	49,224	46,459
Investments at fair value through profit or loss	284	286
Receivables from insurance operations	1,185	985
Other receivables	336	2,185
Cash and cash equivalents	1,258	551
<b>Total current assets</b>	<b>52,287</b>	<b>50,466</b>
<b>Total assets</b>	<b>53,994</b>	<b>52,033</b>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Share capital	37,500	37,500
Accumulated losses	1,167	(148)
Other reserves	2,304	2,188
Profit for the year	1,394	1,315
<b>Total equity</b>	<b>42,365</b>	<b>40,855</b>
<b>Technical provisions</b>		
Gross technical provisions	14,355	14,225
Technical provisions, reinsurer's share	(6,298)	(6,419)
	<b>8,057</b>	<b>7,806</b>
<b>Current liabilities</b>		
Liabilities from insurance operations	1,484	1,190
Other liabilities	2,088	2,182
<b>Total liabilities</b>	<b>3,572</b>	<b>3,372</b>
<b>Total equity and liabilities</b>	<b>53,994</b>	<b>52,033</b>

Appendix - financial performance of the HKO Group  
Statement of Cash Flows  
for the period 1 January – 30 June (unaudited)  
(All amounts are expressed in HRK thousand)

	Jun 30, 2017	Jun 30, 2016
<b>Operating activities</b>		
Profit before income tax	1,394	443
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>		
Depreciation	31	36
Impairment loss and provisions	(26)	(42)
Income tax	-	-
Accrued interest	(22)	15
<i>Operating profit before working capital changes</i>	<b>1,377</b>	<b>452</b>
<b>Changes in operating assets and liabilities:</b>		
Net decrease in deposits with other banks	-	2,000
Net realised (gain) on assets available for sale	(1)	(164)
Decrease of discount in assets available for sale and assets held to maturity	220	201
Net gain/(losses) on financial assets at fair value through profit or loss	(3)	(89)
Premium receivables	(242)	(281)
Net decrease/(increase) in other assets	1,624	(192)
Net increase/(decrease) of assets and liabilities from insurance operations	294	(284)
Net increase in technical provisions	251	169
Net (decrease) in other liabilities	(19)	(69)
<b>Net cash provided by operating activities</b>	<b>3,501</b>	<b>1,743</b>
<b>Investment activities</b>		
(Purchase) of financial assets at fair value through profit or loss	-	(4,570)
Sale of financial assets at fair value through profit or loss	-	3,821
Net (purchase) of assets available for sale	(6,417)	(2,796)
Net sale of assets available for sale	3,372	1,758
Net (purchase) of property, plant and equipment and intangible assets	(10)	23
<b>Net cash (used in) investment activities</b>	<b>(3,055)</b>	<b>(1,764)</b>
<b>Effect of foreign currency to cash and cash equivalents</b>		
Net foreign exchange	261	231
<b>Net effect</b>	<b>261</b>	<b>231</b>
Net increase/(decrease) in cash and cash equivalents	707	210
Balance as of 1 January	551	242
Net increase/(decrease) in cash	707	210
<b>Balance as of 30 June</b>	<b>1,258</b>	<b>452</b>

Appendix - financial performance of the HKO Group  
Statement of Changes in Equity  
for the period 1 January – 30 June (unaudited)  
(All amounts are expressed in HRK thousand)

	Share capital	Accumulated losses	Other reserves	Profit/(loss) for the year	Total equity attributable to the equity holders of the Company	Total equity
<b>Balance as of 1 January 2016</b>	<b>37,500</b>	<b>(1,184)</b>	<b>874</b>	<b>1,036</b>	<b>38,226</b>	<b>38,226</b>
Profit for the year	-	-	-	443	443	443
Other comprehensive income	-	-	428	-	428	428
Total comprehensive income	-	-	428	443	871	871
Transfer of profit 2015 to retained earnings	-	1,036	-	(1,036)	-	-
<b>Balance as of 30 June 2016</b>	<b>37,500</b>	<b>(148)</b>	<b>1,302</b>	<b>443</b>	<b>39,097</b>	<b>39,097</b>
<b>Balance as of 1 January 2017</b>	<b>37,500</b>	<b>(148)</b>	<b>2,188</b>	<b>1,315</b>	<b>40,855</b>	<b>40,855</b>
Profit for the year	-	-	-	1,394	1,394	1,394
Other comprehensive income	-	-	116	-	116	116
Total comprehensive income	-	-	116	1,394	1,510	1,510
Transfer of profit 2016 to retained earnings	-	1,315	-	(1,315)	-	-
<b>Balance as of 30 June 2017</b>	<b>37,500</b>	<b>1,167</b>	<b>2,304</b>	<b>1,394</b>	<b>42,365</b>	<b>42,365</b>

