

CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

**Unaudited Consolidated Interim Condensed Financial Statements
for the Period 1 January – 30 September 2017**

Zagreb, November 2017

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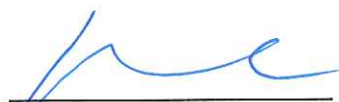
Statement of Persons Responsible for Consolidated Interim Condensed Financial Statements
for the period 1 January – 30 September 2017

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 94 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 Statement of financial position according to the structure applicable for financial institutions.



Tamara Perko, MSc

President of the Management Board



Vedran Jakšić, MSc
Senior Executive Director


Hrvoje Čuvalo, MSc

Member of the Management Board

Zagreb, November 2017

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

		2017		2016	
	Notes	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
Interest income	4	209,356	661,197	215,899	644,925
Interest expense	5	(86,308)	(301,461)	(112,639)	(340,875)
Net interest income		123,048	359,736	103,260	304,050
Fee income		16,770	33,114	7,235	22,361
Fee expense		(914)	(2,591)	(401)	(1,820)
Net fee income		15,856	30,523	6,834	20,541
Net losses on financial operations		(11,175)	(18,988)	(246)	(11,037)
Other income		2,985	11,347	3,454	10,283
		130,714	382,618	113,302	323,837
Operating expenses	6	(36,150)	(114,179)	(37,353)	(119,252)
Impairment loss and provisions	7	(48,773)	(91,898)	(23,849)	(44,807)
Profit before income tax		45,791	176,541	52,100	159,778
Income tax		-	-	-	-
Profit for the period		45,791	176,541	52,100	159,778
Attributable to:					
Equity holders of the parent		45,791	176,541	52,100	159,778

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

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

	2017		2016	
	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
Profit for the period	45,791	176,541	52,100	159,778
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Increase in fair value of assets available for sale	20,624	42,387	40,070	72,153
Decrease in fair value of assets available for	(3,168)	(23,324)	(21,520)	(38,583)
Net foreign exchange on available for sale equity instruments	307	(210)	(18)	(405)
Transfer of realized gains on assets available for sale to statement of profit or loss	(514)	(8,630)	(1,825)	(2,079)
Transfer of realized losses on assets available for sale to statement of profit or loss	76	6,581	16	16
Deferred tax – other comprehensive income	(115)	(140)	(155)	(262)
Total items that may be reclassified subsequently to profit or loss	17,210	16,664	16,568	30,840
Other comprehensive income after income tax	17,210	16,664	16,568	30,840
Total comprehensive income after income tax	63,001	193,205	68,668	190,618
Attributable to:				
Equity holders of the parent	63,001	193,205	68,668	190,618

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 (unaudited)
(All amounts are expressed in HRK thousand)

	Notes	Sep 30, 2017	Dec 31, 2016
Assets			
Cash on hand and due from banks	8	739,917	491,246
Deposits with other banks		76	23,872
Loans to financial institutions	9	12,247,287	11,889,111
Loans to other customers	10	11,913,212	11,511,194
Financial assets at fair value through profit or loss		288	286
Assets available for sale	11	3,314,045	3,390,034
Assets held to maturity		1,404	1,422
Investments in associates		-	-
Property, plant and equipment and intangible assets		54,076	57,305
Non-current assets held for sale		17,045	17,230
Other assets		13,374	9,122
Total assets		28,300,724	27,390,822
Liabilities			
Deposits		940,784	142,844
Borrowings	12	15,335,834	13,391,749
Bonds payable	13	1,141,222	3,105,569
Other liabilities		622,070	707,952
Total liabilities		18,039,910	17,348,114
Equity			
Founder's capital		6,984,632	6,959,632
Retained earnings and reserves		2,996,968	2,682,127
Other reserves		90,397	73,733
Profit for the period		176,541	314,841
Total equity attributable to equity holders of the parent		10,248,538	10,030,333
Guarantee fund		12,276	12,375
Total equity		10,260,814	10,042,708
Total liabilities and total equity		28,300,724	27,390,822

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 September (unaudited)
(All amounts are expressed in HRK thousand)

	Note	2017	2016
Operating activities			
Profit before income tax		176,541	159,778
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation		5,742	5,722
Income tax		140	262
Impairment loss and provisions		91,898	44,807
Accrued interest		(59,064)	(54,715)
Deferred fees		(9,560)	4,145
<i>Operating profit before working capital changes</i>		<i>205,697</i>	<i>159,999</i>
<i>Changes in operating assets and liabilities:</i>			
Net decrease in deposits with other banks, before provision for impairment		24,119	208,142
Net (increase)/decrease in loans to financial institutions, before provision for impairment		(260,326)	744,463
Net (increase) in loans to other customers, before provision for impairment		(588,756)	(1,422,785)
Net (gain) on financial assets at fair value through profit or loss		(4)	(128)
Net realised (gain)/losses on assets available for sale		(2,049)	(2,063)
Decrease/(increase) of discount in assets available for sale, assets held to maturity and bonds payable		1,678	(1,726)
Net (decrease)/increase in non-current assets held for sale		212	(15)
Net (increase) in other assets, before provision for impairment		(4,476)	(154)
Net increase/(decrease) in deposits from banks and companies		797,940	(44,040)
Net (decrease) in other liabilities, before provisions		(74,455)	(100,106)
Net cash provided/(used in) by operating activities		99,580	(458,413)
Investment activities			
(Purchase) of financial assets at fair value through profit or loss		-	(7,640)
Sale of financial assets at fair value through profit or loss		-	5,813
Net (purchase) of assets available for sale		(1,239,643)	(2,027,244)
Sale of assets available for sale		1,320,401	1,381,318
Net (purchase) of property, plant and equipment and intangible assets		(2,464)	(851)
Net cash provided by/(used in) investment activities		78,294	(648,604)
Financing activities			
Increase in founder's capital		25,000	-
Increase in borrowings – withdrawn funds		3,255,181	2,383,300
(Decrease) in borrowings – repayments of principal		(1,195,372)	(699,445)
(Decrease) in bonds payable – repayment		(1,852,051)	(224,487)
Net cash provided by financing activities		232,758	1,459,368
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		(161,404)	(211,901)
Net effect		(161,404)	(211,901)
Net increase in cash and cash equivalents		249,228	140,450
Balance as of 1 January, before provisions		494,325	486,743
Net increase in cash		249,228	140,450
Balance as of 30 September, before provisions	8	743,553	627,193
Additional note - Operational cash flows			
Interest paid		354,581	393,557
Interest received		532,638	539,897

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 September (unaudited)
(All amounts are expressed in HRK thousand)

	Founder's capital	Retained earnings and reserves	Other reserves	Net profit for the period	Total equity
Balance as of 1 January 2016	6,926,632	2,475,862	43,283	206,265	9,652,042
Profit for the period	-	-	-	159,778	159,778
Other comprehensive income	-	-	30,840	-	30,840
Total comprehensive income	-	-	30,840	159,778	190,618
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2015 to retained earnings	-	206,265	-	(206,265)	-
Balance as of 30 September 2016	6,926,632	2,682,127	74,123	159,778	9,842,660
Balance as of 1 January 2017	6,959,632	2,682,127	73,733	314,841	10,030,333
Profit for the period	-	-	-	176,541	176,541
Other comprehensive income	-	-	16,664	-	16,664
Total comprehensive income	-	-	16,664	176,541	193,205
Capital paid-in from the State Budget	25,000	-	-	-	25,000
Transfer of profit 2016 to retained earnings	-	314,841	-	(314,841)	-
Balance as of 30 September 2017	6,984,632	2,996,968	90,397	176,541	10,248,538

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

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

	Notes	2017		2016	
		Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
Interest income	4	208,951	659,963	215,494	643,683
Interest expense	5	(86,308)	(301,461)	(112,639)	(340,875)
Net interest income		122,643	358,502	102,855	302,808
Fee income		16,305	31,365	6,658	20,678
Fee expense		(914)	(2,591)	(402)	(1,821)
Net fee income		15,391	28,774	6,256	18,857
Net losses on financial operations		(11,304)	(18,878)	(312)	(11,128)
Other income		1,308	6,278	1,728	5,275
		128,038	374,676	110,527	315,812
Operating expenses	6	(33,164)	(107,296)	(34,961)	(112,011)
Impairment loss and provisions	7	(48,719)	(91,869)	(23,880)	(44,880)
Profit before income tax		46,155	175,511	51,686	158,921
Income tax		-	-	-	-
Profit for the period		46,155	175,511	51,686	158,921
Attributable to:					
Equity holders of the parent		46,155	175,511	51,686	158,921

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 September (unaudited)
(All amounts are expressed in HRK thousand)

	2017		2016	
	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
Profit for the period	46,155	175,511	51,686	158,921
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Increase in fair value of assets available for sale	19,891	40,418	39,207	70,321
Decrease in fair value of assets available for sale	(3,079)	(22,135)	(21,468)	(38,261)
Net foreign exchange on available for sale equity instruments	307	(210)	(18)	(405)
Transfer of realized gains on assets available for sale to statement of profit or loss	(514)	(8,629)	(1,788)	(1,878)
Transfer of realized losses on assets available for sale to statement of profit or loss	76	6,575	16	16
Total items that may be reclassified subsequently to profit or loss	16,681	16,019	15,949	29,793
Other comprehensive income after tax	16,681	16,019	15,949	29,793
Total comprehensive income after tax	62,836	191,530	67,635	188,714
Attributable to:				
Equity holders of the parent	62,836	191,530	67,635	188,714

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

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Unconsolidated Interim Condensed Financial Statements of the Bank
Statement of Financial Position as of (unaudited)

(All amounts are expressed in HRK thousand)

	Notes	Sep 30, 2017	Dec 31, 2016
Assets			
Cash on hand and due from banks	8	737,631	490,695
Deposits with other banks		76	23,872
Loans to financial institutions	9	12,247,287	11,889,111
Loans to other customers	10	11,913,212	11,511,194
Assets available for sale	11	3,264,520	3,343,574
Investments in subsidiaries		36,124	36,124
Investments in associates		-	-
Property, plant and equipment and intangible assets		54,022	57,216
Non-current assets held for sale		17,045	17,230
Other assets		11,678	5,900
Total assets		28,281,595	27,374,916
Liabilities			
Deposits		940,784	142,844
Borrowings	12	15,335,834	13,391,749
Bonds payable	13	1,141,222	3,105,569
Other liabilities		609,344	696,774
Total liabilities		18,027,184	17,336,936
Equity			
Founder's capital		6,984,632	6,959,632
Retained earnings and reserves		2,995,656	2,682,131
Other reserves		86,336	70,317
Profit for the period		175,511	313,525
Capital		10,242,135	10,025,605
Guarantee fund		12,276	12,375
Total equity		10,254,411	10,037,980
Total liabilities and total equity		28,281,595	27,374,916

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 September (unaudited)
(All amounts are expressed in HRK thousand)

	Note	2017	2016
Operating activities			
Profit before income tax		175,511	158,921
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation		5,697	5,670
Impairment loss and provisions		91,869	44,880
Accrued interest		(59,177)	(54,871)
Deferred fees		(9,560)	4,145
<i>Operating profit before working capital changes</i>		204,340	158,745
<i>Changes in operating assets and liabilities:</i>			
Net decrease in deposits with other banks, before provision for impairment		24,119	205,142
Net (increase)/decrease in loans to financial institutions, before provision for impairment		(260,326)	744,463
Net (increase) in loans to other customers, before provision for impairment		(588,756)	(1,422,785)
Net realised (gain)/losses on assets available for sale		(2,054)	(1,862)
Decrease/(increase) of discount in assets available for sale and bonds payable		1,359	(2,028)
Net (decrease)/increase in non-current assets held for sale		212	(15)
Net (increase) in other assets, before provision for impairment		(6,316)	(167)
Net increase/(decrease) in deposits from banks and companies		797,940	(44,040)
Net (decrease) in other liabilities, before provisions		(75,381)	(100,366)
Net cash provided by/(used in) operating activities		95,137	(462,913)
Investment activities			
Net (purchase) of assets available for sale		(1,233,053)	(2,022,409)
Sale of assets available for sale		1,316,657	1,379,193
Net (purchase) of property, plant and equipment and intangible assets		(2,454)	(847)
Net cash provided by/(used in) investment activities		81,150	(644,063)
Financing activities			
Increase in founder's capital		25,000	-
Increase in borrowings – withdrawn funds		3,255,181	2,383,300
(Decrease) in borrowings – repayments of principal		(1,195,372)	(699,445)
(Decrease) in bonds payable – repayment		(1,852,051)	(224,487)
Net cash provided by financing activities		232,758	1,459,368
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		(161,552)	(212,148)
Net effect		(161,552)	(212,148)
Net increase in cash and cash equivalents		247,493	140,244
Balance as of 1 January, before provisions		493,774	486,501
Net increase in cash		247,493	140,244
Balance as of 30 September, before provisions	8	741,267	626,745
Additional note - Operational cash flows			
Interest paid		354,581	393,557
Interest received		530,972	538,182

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 September (unaudited)
(All amounts are expressed in HRK thousand)

	Founder's capital	Retained earnings and reserves	Other reserves	Net profit for the period	Total equity
Balance as of 1 January 2016	6,926,632	2,476,903	41,182	205,228	9,649,945
Profit for the period	-	-	-	158,921	158,921
Other comprehensive income	-	-	29,793	-	29,793
Total comprehensive income	-	-	29,793	158,921	188,714
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2015 to retained earnings	-	205,228	-	(205,228)	-
Balance as of 30 September 2016	6,926,632	2,682,131	70,975	158,921	9,838,659
Balance as of 1 January 2017	6,959,632	2,682,131	70,317	313,525	10,025,605
Profit for the period	-	-	-	175,511	175,511
Other comprehensive income	-	-	16,019	-	16,019
Total comprehensive income	-	-	16,019	175,511	191,530
Capital paid-in from the State Budget	25,000	-	-	-	25,000
Transfer of profit 2016 to retained earnings	-	313,525	-	(313,525)	-
Balance as of 30 September 2017	6,984,632	2,995,656	86,336	175,511	10,242,135

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 September 2017 (unaudited)
(All amounts are expressed in HRK thousand)

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 September 2017, the Group had 383 employees (30 September 2016: 356 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 September 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

1. General information (continued)

1.2. Bank (continued):

Supervisory Board

As of the date of preparing these Statements, the Supervisory Board of HBOR consisted of the following members:

- Zdravko Marić, DSc, Minister of Finance - ex officio President of the Supervisory Board,
- Martina Dalić, DSc, Deputy Prime Minister of the Republic of Croatia and Minister of the Economy, Entrepreneurship and Trade – ex officio Vice President of the Supervisory Board,
- Predrag Štromar, Deputy Prime Minister of the Republic of Croatia and Minister of Construction and Physical Planning (from 4 August 2017),
- Gabrijela Žalac, Minister of Regional Development and EU Funds – ex officio Member of the Supervisory Board,
- 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,
- Božica Makar, Member of the Croatian Parliament (from 14 July 2017)
- Grozdana Perić, Chairman of the Finance and Central Budget Committee 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
- Hrvoje Čuvalo, MSc, Member of the Management Board.

On 9 October 2017, the Supervisory Board of HBOR, following the proposal of the Government of the Republic of Croatia, made a decision on the appointment of a new Management Board of HBOR.

As of 16 October 2017, Tamara Perko, MSc, is appointed President of the Management Board of HBOR, and Hrvoje Čuvalo, MSc, Member of the Management Board.

The new Management Board is appointed for a five-year term of office.

Tamara Perko, MSc, has been holding the position of the President of the Management Board of HBOR since 1 February 2017.

As of 30 September 2017, there were 366 employees at the Bank (30 September 2016: 342 employees).

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

1. General information (continued)

1.2. Bank (continued):

Audit Committee

On the date of preparing these statements, members of the Audit Committee were as follows :

- 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.

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.

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

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 September 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 September 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 September 2017, the Statement of Profit or Loss for the period 1 January – 30 September 2017, the Statement of Profit or Loss and other Comprehensive Income for the period 1 January – 30 September 2017, the Statement of Cash Flows for the period 1 January – 30 September 2017, the Statement of Changes in Equity for the period 1 January – 30 September 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 September 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

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 and adopted in the European Union :

- Amended IAS 12 Income Taxes (effective for periods beginning on or after 1 January 2017, adopted in the European Union on 9 November 2017) – 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 do 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, adopted in the European Union on 9 November 2017) – 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 do not affect the Group after the initial application.

b) New and amended International Financial Reporting Standards effective in the reporting period and that have not been adopted in the European Union yet.

- 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.

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

3. Summary of significant accounting policies

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

b) 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)
 - 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 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.

c) 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 September 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

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 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.

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

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 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 in the field of impairment will depend on the determined methodology for calculating expected credit losses and modelling of risk parameters based on expected credit losses. The adjustments of HBOR accounting policies and the process of financial reporting are being prepared simultaneously.

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 IFRS 16 Leases (effective for periods beginning on or after 1 January 2019 adopted in the European Union on 9 November 2017) – 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.

- Changes and amendments to IFRS 15 Revenue from Contracts with Customers (effective for periods beginning on or after 1 January 2018, adopted in the European Union on 9 November 2017) – 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.

- Amendments to IFRS 4 Insurance Contracts - Applying IFRS 9 Financial Instruments with IFRS 4 (effective for periods beginning on or after 1 January 2018, adopted in the European Union on 9 November 2017) – 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

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

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 not effective in the reporting period and adopted in the European Union with the assessment of impact on the financial statements (continued):

- 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).

d) 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.

- 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.

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

3. Summary of significant accounting policies (continued)

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

d) 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 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.

- 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).

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.

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

3. Summary of significant accounting policies (continued)

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

d) 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):

- 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.

Amendments to IFRS 9 - „Prepayment Features with Negative Compensation“ (effective for periods beginning on or after 1 January 2019, but have not been adopted in the European Union yet).

The amendments to the financial instruments Standard IFRS 9, allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss.

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

- Amendments to IAS 28 Investments in Associates and Joint Ventures (effective for periods beginning on or after 1 January 2019, but have not been adopted in the European Union yet). The Amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied. An entity applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. 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 September 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

4. Interest income

Interest income by borrowers:

	Group						Bank	
	2017			2016			2016	
	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
Public sector	27,889	83,267	28,832	89,750	82,033	28,433		88,565
State-owned companies	15,051	41,036	10,936	29,574	41,036	10,936		29,574
Foreign companies	3,025	9,534	3,294	9,688	9,534	3,294		9,688
Domestic companies	86,206	272,668	86,967	249,075	272,668	86,967		249,075
Domestic financial institutions	61,449	187,271	70,347	215,894	187,271	70,341		215,837
Foreign financial institutions	226	399	34	97	399	34		97
Penalty interest	3,993	8,150	4,267	10,607	8,150	4,267		10,607
Other	11,517	58,872	11,222	40,240	58,872	11,222		40,240
	209,356	661,197	215,899	644,925	659,963	215,494		643,683

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

4. Interest income (continued)

Interest income by type of facility:

	2017			2016			2017			2016			Bank
	Group		Cumulatively	Group		Cumulatively	2017		Cumulatively	2016		Cumulatively	
	Current period July 1 – September 30	July 1 – September 30		Current period July 1 – September 30	July 1 – September 30		Current period July 1 – September 30	July 1 – September 30		Current period July 1 – September 30	July 1 – September 30		
Interest on loans													
- financial institutions	61,206		189,595	70,341		216,033	61,206		189,595	70,341		216,033	
- other customers	138,144		440,147	133,029		391,634	138,144		440,147	133,029		391,634	
	199,350		629,742	203,370		607,667	199,350		629,742	203,370		607,667	
Investments in securities	9,777		31,047	12,485		37,064	9,372		29,813	12,085		35,878	
Deposits	229		408	44		194	229		408	39		138	
	209,356		661,197	215,899		644,925	208,951		659,963	215,494		643,683	

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 September 2017 amounts to HRK 76,607 thousand (1 January to 30 September 2016: HRK 98,485 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.

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

5. Interest expense

Interest expense by type of payee:

	Group				Bank			
	2017		2016		2017		2016	
	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
Domestic financial institutions	614	2,083	3,001	8,324	614	2,083	3,001	8,324
Foreign financial institutions	85,694	299,378	109,638	332,551	85,694	299,378	109,638	332,551
	86,308	301,461	112,639	340,875	86,308	301,461	112,639	340,875

Interest expense by type of facility:

	Group				Bank			
	2017		2016		2017		2016	
	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
Borrowings	67,813	205,106	70,562	210,352	67,813	205,106	70,562	210,352
Debt securities	17,765	95,364	42,076	130,522	17,765	95,364	42,076	130,522
Deposits	730	991	1	1	730	991	1	1
	86,308	301,461	112,639	340,875	86,308	301,461	112,639	340,875

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 September 2017 (unaudited) (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 July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	
General and administrative expenses:									
Employee expenses	22,448	68,070	22,334	66,031	21,561	65,494	21,674	63,731	
Depreciation	1,786	5,742	1,764	5,722	1,771	5,697	1,747	5,670	
Administration expenses	2,141	8,789	3,091	8,981	2,064	8,536	2,989	8,750	
Material and services	7,028	22,233	7,327	20,573	6,551	20,802	6,921	19,351	
	33,403	104,834	34,516	101,307	31,947	100,529	33,331	97,502	
Other expenses:									
Taxes and contributions	218	523	174	514	217	520	171	510	
Other expenses	2,529	8,822	2,663	17,431	1,000	6,247	1,459	13,999	
	2,747	9,345	2,837	17,945	1,217	6,767	1,630	14,509	
	36,150	114,179	37,353	119,252	33,164	107,296	34,961	112,011	

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Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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		2017		2016		Bank
	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	
Changes in claims provisions	2,944	3,743	1,249	1,786	-	-	-	-	-
Changes in claims provisions, reinsurer's share	(1,629)	(1,894)	(437)	(1,031)	-	-	-	-	-
Expenses of insurance operations	1,315	1,849	812	755	-	-	-	-	-

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 provisions and the share of reinsurance decreased in gross amount as compared to the same reporting date of the previous year. The reinsurance share is determined in accordance with the valid terms and conditions of the reinsurance contract.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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 July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30			
Impairment losses on cash on hand and due from banks	1,769	557	3,148	3,148	2,356	1,769	557	3,148	2,356			3,148	2,356			
Impairment losses on deposits with other banks	(18)	(247)	(111)	(111)	(2,153)	(18)	(247)	(111)	(2,153)			(111)	(2,153)			
Impairment losses on loans to financial institutions	(40,725)	(98,079)	(11,204)	(11,204)	(39,839)	(40,725)	(98,079)	(11,204)	(98,079)			(11,204)	(39,839)			
Impairment losses on loans to other customers and interest	83,463	201,224	9,388	9,388	47,812	83,463	201,224	9,388	201,224			9,388	47,812			
Impairment losses on non-current assets held for sale	(15)	(27)	(37)	(37)	(89)	(15)	(27)	(37)	(27)			(37)	(89)			
Impairment losses on other assets	61	593	(293)	(293)	348	7	490	(296)	490			(296)	348			
Total increase in provision for impairment losses on assets	44,535	104,021	891	891	8,435	44,481	103,918	888	103,918			888	8,435			
Provision for guarantees and commitments	1,074	(7,336)	21,680	21,680	18,817	1,074	(7,336)	21,680	(7,336)			21,680	18,817			
Other provisions	3,164	(4,787)	1,278	1,278	17,555	3,164	(4,713)	1,312	(4,713)			1,312	17,628			
Total increase/(decrease) in provision for guarantees and commitments and other provisions	4,238	(12,123)	22,958	22,958	36,372	4,238	(12,049)	22,992	(12,049)			22,992	36,445			
Total increase of provisions	48,773	91,898	23,849	23,849	44,807	48,719	91,869	23,880	91,869			23,880	44,880			

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

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 September 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

8. Cash on hand and due from banks

	Group		Bank	
	Sep 30, 2017	Dec 31, 2016	Sep 30, 2017	Dec 31, 2016
Account with the Croatian National Bank	378,200	186,167	378,200	186,167
Due from domestic banks in foreign currency	2,773	1,626	2,773	1,626
Due from foreign banks in foreign currency	360,294	305,981	360,294	305,981
Due from domestic banks in HRK	2,286	551	-	-
	<u>743,553</u>	<u>494,325</u>	<u>741,267</u>	<u>493,774</u>
Provisions for impairment losses	(3,636)	(3,079)	(3,636)	(3,079)
	<u>739,917</u>	<u>491,246</u>	<u>737,631</u>	<u>490,695</u>

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

9. Loans to financial institutions

	Group		Bank	
	Sep 30, 2017	Dec 31, 2016	Sep 30, 2017	Dec 31, 2016
Long-term loans under loan programmes	11,227,670	11,918,947	11,227,670	11,918,947
Short-term loans and reverse repo transactions	1,312,480	362,489	1,312,480	362,489
Accrued interest	30,833	37,363	30,833	37,363
Deferred recognition of loan origination fees	(60,070)	(66,371)	(60,070)	(66,371)
	12,510,913	12,252,428	12,510,913	12,252,428
Provisions for impairment losses	(263,626)	(363,317)	(263,626)	(363,317)
	12,247,287	11,889,111	12,247,287	11,889,111

Loans to financial institutions by purpose of the loan programmes:

	Group		Bank	
	Sep 30, 2017	Dec 31, 2016	Sep 30, 2017	Dec 31, 2016
Loan programme for reconstruction and development of the economy	2,330,026	2,775,682	2,330,026	2,775,682
Export financing	3,260,880	3,466,148	3,260,880	3,466,148
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	1,595,280	1,602,331	1,595,280	1,602,331
Loan programme for small and medium-sized enterprises	4,032,457	4,064,711	4,032,457	4,064,711
Loan programme for war-torn and demolished housing and business facilities	9,027	10,075	9,027	10,075
Other	1,312,480	362,489	1,312,480	362,489
Accrued interest	30,833	37,363	30,833	37,363
Deferred recognition of loan fees	(60,070)	(66,371)	(60,070)	(66,371)
	12,510,913	12,252,428	12,510,913	12,252,428
Provisions for impairment losses	(263,626)	(363,317)	(263,626)	(363,317)
	12,247,287	11,889,111	12,247,287	11,889,111

Average interest rates for total loans to financial institutions, at year level, are stated at 0.91% (1 January to 30 September 2016: 1.10%) and are equal to average interest rates for loans under HBOR loan programmes excluding the liquidity reserve).

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 1,312,480 thousand (31 December 2016: HRK 232,489 thousand). The above placements are collateralised by securities in the amount of HRK 1,403,847 thousand (31 December 2016: HRK 247,026 thousand).

In the reporting period, provisions for loans to financial institutions in the amount of HRK 13,869 thousand were charged and provisions in the amount of HRK 111,948 thousand were reversed.

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

10. Loans to other customers

	Group		Bank	
	Sep 30, 2017	Dec 31, 2016	Sep 30, 2017	Dec 31, 2016
Domestic companies	10,759,127	10,463,392	10,759,127	10,463,392
State-owned companies	1,267,664	1,183,103	1,267,664	1,183,103
Public sector	1,646,614	1,528,564	1,646,614	1,528,564
Foreign companies	336,354	237,429	336,354	237,429
Non-profit institutions	1,712	1,712	1,712	1,712
Other	667,111	712,400	667,111	712,400
Accrued interest	92,497	83,423	92,497	83,423
Deferred recognition of loan origination fees	(113,917)	(119,328)	(113,917)	(119,328)
	<u>14,657,162</u>	<u>14,090,695</u>	<u>14,657,162</u>	<u>14,090,695</u>
Provisions for impairment losses	(2,743,950)	(2,579,501)	(2,743,950)	(2,579,501)
	11,913,212	11,511,194	11,913,212	11,511,194

Loans to other customers by loan programmes:

	Group		Bank	
	Sep 30, 2017	Dec 31, 2016	Sep 30, 2017	Dec 31, 2016
Loan programme for reconstruction and development of the economy	4,150,093	4,123,892	4,150,093	4,123,892
Export financing	5,207,562	4,687,115	5,207,562	4,687,115
Loan programme for reconstruction and development of infrastructure in the	3,233,109	3,075,022	3,233,109	3,075,022
Loan programme for small and medium-sized enterprises	2,039,616	2,158,612	2,039,616	2,158,612
Other	48,202	81,959	48,202	81,959
Accrued interest	92,497	83,423	92,497	83,423
Deferred recognition of loan origination fees	(113,917)	(119,328)	(113,917)	(119,328)
	<u>14,657,162</u>	<u>14,090,695</u>	<u>14,657,162</u>	<u>14,090,695</u>
Provisions for impairment losses	(2,743,950)	(2,579,501)	(2,743,950)	(2,579,501)
	11,913,212	11,511,194	11,913,212	11,511,194

Average interest rates for total loans to other customers, at annual level, are stated at 2.11% (1 January to 30 September 2016: 2.00%).

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 384,499 thousand were charged and provisions in the amount of HRK 181,153 thousand were reversed.

Notes to the Consolidated Interim Condensed Financial Statements include
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for the period 1 January – 30 September 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

11. Assets available for sale

	Group		Bank	
	Sep 30, 2017	Dec 31, 2016	Sep 30, 2017	Dec 31, 2016
Debt instruments:				
Listed debt instruments:				
Bonds of the Ministry of Finance of the Republic of Croatia	896,476	925,887	853,824	884,914
Financial institution bonds	511	910	-	-
Corporate bonds	1,152	1,161	-	-
Treasury bills of the Ministry of Finance of the Republic of Croatia	1,548,521	1,500,420	1,548,521	1,500,420
Accrued interest	10,369	14,495	9,883	13,890
	2,457,029	2,442,873	2,412,228	2,399,224
Unlisted debt instruments:				
Corporate bonds	512	502	512	502
Accrued interest	150	99	150	99
	662	601	662	601
Equity instruments:				
Listed equity instruments:				
Investments in companies' shares	16,805	10,938	16,805	10,938
	16,805	10,938	16,805	10,938
Unlisted equity instruments:				
Investments in shares of foreign legal entities	35	32	35	32
Investments in financial institutions shares	161	161	161	161
Shares of foreign financial institutions – EIF	25,371	25,815	25,371	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)
	25,567	26,008	25,567	26,008
Investments in investment funds:				
Shares classified as assets available for sale	813,982	909,614	809,258	906,803
	813,982	909,614	809,258	906,803
Balance	3,314,045	3,390,034	3,264,520	3,343,574

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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 (%)	Sep 30, 2017	Group Dec 31, 2016	Sep 30, 2017	Bank Dec 31, 2016
Debt instruments:							
Listed debt instruments:							
Bonds of the Republic of Croatia indexed to foreign currency:							
RHMF-O-19BA	29.11.2004	29.11.2019	5.375	47,794	48,602	46,794	47,588
RHMF-O -227E	22.7.2011	22.7.2022	6.5	174,498	172,432	174,498	172,432
RHMF-O-247E	10.7.2013	10.7.2024	5.75	18,195	17,802	12,853	12,558
RHMF-O-203E	5.3.2010	5.3.2020	6.5	865	875	-	-
Bonds of the Republic of Croatia in foreign currency:							
XS0645940288	8.7.2011	9.7.2018	5.875	54,760	57,370	54,760	57,370
XS0776179656	27.4.2012	27.4.2017	6.25	-	14,529	-	14,529
XS1117298916	11.3.2015	11.3.2025	3.0	56,397	53,248	56,397	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	41,450	42,406	36,255	37,094
RHMF-O-17BA	25.11.2010	25.11.2017	6.25	155,808	161,910	151,263	157,185
RHMF-O-203A	5.3.2010	5.3.2020	6.75	2,987	3,003	-	-
RHMF-O-257A	9.7.2015	9.7.2025	4.5	9,647	9,335	-	-
RHMF-O-26CA	14.12.2015	14.12.2026	4.25	43,152	41,909	34,115	33,089
RHMF-O-217A	8.7.2016	8.7.2021	2.75	206,787	201,471	204,672	199,411
RHMF-O-222A	7.2.2017	7.2.2022	2.25	72,115	-	72,115	-
RHMF-O-282A	7.2.2017	7.2.2028	2.875	12,021	-	10,102	-
Financial institution bonds in HRK:							
RIBA-O-17BA	23.11.2012	23.11.2017	5.88	511	522	-	-
Financial institution bonds indexed to foreign currency:							
RIBA-O-177A	18.7.2011	18.7.2017	6.5	-	388	-	-
Corporate bonds in HRK:							
JDGL-O-20CA	21.12.2015	21.12.2020	5.81	769	770	-	-
Corporate bonds indexed to foreign currency:							
JRLN-O-17AA	24.10.2012	24.10.2017	6.5	383	391	-	-
Treasury bills in HRK up to 281 days			0,728	29,978	-	29,978	-
Treasury bills in HRK up to 364 days			0,398-0,856	1,106,421	1,087,406	1,106,421	1,087,406
Treasury bills in foreign currency up to 455 days			0,267	412,123	413,014	412,123	413,014
Accrued interest				10,369	14,495	9,883	13,890
				2,457,029	2,442,873	2,412,228	2,399,224
Unlisted debt instruments:							
Corporate bonds indexed to foreign currency:							
LNGU-O-31AE	24.7.2015	15.10.2031	4.5	512	502	512	502
Accrued interest				150	99	150	99
				662	601	662	601

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Notes to the Consolidated Interim Condensed Financial Statements include
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(All amounts are expressed in HRK thousand)

11. Assets available for sale (continued)

The following text contains investment breakdown (continued):

	Sep 30, 2017	Group Dec 31, 2016	Sep 30, 2017	Bank Dec 31, 2016
Equity instruments:				
Listed equity instruments:				
Investments in companies' shares	16,805	10,938	16,805	10,938
	16,805	10,938	16,805	10,938
Unlisted equity instruments:				
Investments in shares of foreign legal entities in foreign currency	35	32	35	32
Investments in financial institutions' shares	161	161	161	161
Investments in shares of foreign financial institutions in foreign currency - EIF	25,371	25,815	25,371	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)
	25,567	26,008	25,567	26,008
Investments in investments funds in the Republic of Croatia	813,982	909,614	809,258	906,803
Total	3,314,045	3,390,034	3,264,520	3,343,574

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

12. Borrowings

	Group		Bank	
	Sep 30, 2017	Dec 31, 2016	Sep 30, 2017	Dec 31, 2016
Balance as of 1 January	13,378,057	11,453,796	13,378,057	11,453,796
New borrowings	3,255,181	3,730,867	3,255,181	3,730,867
Repayments	(1,195,372)	(1,730,849)	(1,195,372)	(1,730,849)
Net foreign exchange gains/(losses)	(126,396)	(75,757)	(126,396)	(75,757)
	15,311,470	13,378,057	15,311,470	13,378,057
Accrued interest	72,632	64,018	72,632	64,018
Deferred recognition of borrowing origination fees	(48,268)	(50,326)	(48,268)	(50,326)
Balance	15,335,834	13,391,749	15,335,834	13,391,749

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

Average interest rates on borrowings, on annual level, are 1.55% (1 January to 30 September 2016: 1.71%).

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
		Sep 30, 2017	Sep 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	1,251,981	1,114,784	1,270,695	1,121,261
Accrued interest		-	26,805	-	95,932
Deferred recognition of bond payable origination fees		-	(367)	-	(461)
		1,251,981	1,141,222	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 0.72% (1 January to 30 September 2016: 1.06%).

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 1,114,784 thousand as at 30 September 2017 and HRK 1,121,261 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 September 2017 (unaudited) (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 September 2017 amounted to HRK 5,665,776 thousand, decreased by 7% compared with the beginning of the year. Overview of guarantees and commitments:

Group and Bank

	Sep 30, 2017	Dec 31, 2016
Guarantees issued in HRK	21,239	32,409
Guarantees issued in foreign currency	2,220,372	2,007,578
Undrawn loans	3,374,845	3,978,340
EIF – subscribed, not called up capital	47,981	48,370
Open letters of credit in foreign currency	1,000	-
Other irrevocable contingent liabilities	339	339
	<u>5,665,776</u>	<u>6,067,036</u>
Provisions for guarantees and commitments	<u>(67,548)</u>	<u>(75,103)</u>
	<u>5,598,228</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 83%, 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 September 2017 (unaudited) (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 September 2017 and 31 December 2016, and income and expense for the period 1 January to 30 September 2017 and for the period 1 January to 30 September 2016 arising from transactions with related parties, including the Bank's key management personnel, include the following:

a) Related-party transactions

Group	Exposure Sep 30, 2017	Liabilities Sep 30, 2017	Exposure Dec 31, 2016	Liabilities Dec 31, 2016
Owner	3,019,212	173,846	3,193,565	153,374
Government funds, executive authorities and agencies	1,007,177	175,824	1,087,460	14,214
State-owned companies	1,283,327	2	1,193,668	2
Associates	4	-	6	-
Other intra-group transactions	-	-	-	-
Key management personnel	4,027	-	4,289	-
Total	5,313,747	349,672	5,478,988	167,590

Group	Income Jan 1 to Sep 30, 2017	Expense Jan 1 to Sep 30, 2017	Income Jan 1 to Sep 30, 2016	Expense Jan 1 to Sep 30, 2016
Owner	61,481	496	70,624	5,228
Government funds, executive authorities and agencies	22,864	612	15,920	952
State-owned companies	47,676	3,765	38,069	9,877
Associates	3,814	-	536	-
Other intra-group transactions	-	-	-	53
Key management personnel	95	-	110	-
Total	135,930	4,873	125,259	16,110

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

15. Related-party transactions (continued)

a) Related-party transactions (continued)

Bank	Exposure	Liabilities	Exposure	Liabilities
	Sep 30, 2017	Sep 30, 2017	Dec 31, 2016	Dec 31, 2016
Owner	3,019,212	173,846	3,193,565	153,374
Government funds, executive authorities and agencies	963,096	175,713	1,044,382	14,079
State-owned companies	1,282,942	-	1,193,271	-
Subsidiary companies	36,124	-	36,124	-
Associates	4	-	6	-
Key management personnel	3,783	-	4,000	-
Total	5,305,161	349,559	5,471,348	167,453

Bank	Income	Expense	Income	Expense
	Jan 1 to Sep 30, 2017	Jan 1 to Sep 30, 2017	Jan 1 to Sep 30, 2016	Jan 1 to Sep 30, 2016
Owner	61,481	496	70,624	5,228
Government funds, executive authorities and agencies	21,548	36	14,565	544
State-owned companies	47,657	3,701	38,055	9,826
Subsidiary companies	-	-	-	-
Associates	3,814	-	536	-
Key management personnel	89	-	107	-
Total	134,589	4,233	123,887	15,598

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 September 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

15. Related-party transactions (continued)

b) Collateral received

	Group		Bank	
	Sep 30, 2017	Dec 31, 2016	Sep 30, 2017	Dec 31, 2016
The Republic of Croatia	3,668,156	3,092,258	3,571,221	3,007,698
State agencies	576,863	603,215	576,863	603,215
Total	4,245,019	3,695,473	4,148,084	3,610,913

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 5,873 thousand (1 January to 30 September 2016: HRK 5,965 thousand), and for the Bank amounted to HRK 5,471 thousand (1 January to 30 September 2016: HRK 5,139 thousand).

In the reporting period, remuneration for the work of the members of the Supervisory Board for the Group amounted to HRK 257 thousand (1 January to 30 September 2016: HRK 251 thousand) and for the Bank amounted to HRK 113 thousand (1 January to 30 September 2016: HRK 147 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
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(All amounts are expressed in HRK thousand)

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 September 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

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 September 2017, the highest credit exposure of the Group to one debtor equalled HRK 3,243,576 thousand (as of 31 December 2016: HRK 3,147,235 thousand) and of the Bank HRK 3,240,768 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 September 2017 (unaudited) (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:

	Group		Bank	
	Gross highest exposure	Gross highest exposure	Gross highest exposure	Gross highest exposure
	Sep 30, 2017	Dec 31, 2016	Sep 30, 2017	Dec 31, 2016
Assets				
Cash on hand and due from banks	739,907	491,243	737,621	490,692
Deposits with other banks	76	23,872	76	23,872
Loans to financial institutions	12,247,287	11,889,111	12,247,287	11,889,111
Loans to other customers	11,913,212	11,511,194	11,913,212	11,511,194
Financial assets at fair value through profit or loss	288	286	-	-
Assets available for sale	3,271,673	3,353,086	3,222,148	3,306,628
Assets held to maturity	1,404	1,422	-	-
Other assets	6,109	6,249	4,675	3,079
Total	28,179,956	27,276,463	28,125,019	27,224,576
Guarantees and commitments				
Guarantees issued in HRK	21,026	32,082	21,026	32,082
Issued guarantees in foreign currency	2,191,616	1,982,969	2,191,616	1,982,969
Open letters of credit in foreign currency	990	-	990	-
Undrawn loans	3,336,279	3,928,177	3,336,279	3,928,177
Other irrevocable contingent liabilities	335	335	335	335
Total	5,550,246	5,943,563	5,550,246	5,943,563
Total credit risk exposure	33,730,202	33,220,026	33,675,265	33,168,139

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

Group Sep 30, 2017	Republic of Croatia	EU countries	Other countries	Total
Assets				
Cash on hand and due from banks	383,216	347,402	9,289	739,907
Deposits with other banks	-	76	-	76
Loans to financial institutions	12,247,287	-	-	12,247,287
Loans to other customers	11,589,479	-	323,733	11,913,212
Financial assets at fair value through profit or loss	288	-	-	288
Assets available for sale	3,271,673	-	-	3,271,673
Assets held to maturity	1,404	-	-	1,404
Other assets	5,528	581	-	6,109
Total	27,498,875	348,059	333,022	28,179,956
Guarantees and commitments				
Guarantees issued in HRK	20,424	602	-	21,026
Issued guarantees in foreign currency	2,191,616	-	-	2,191,616
Open letters of credit in foreign currency	990	-	-	990
Undrawn loans	3,194,161	-	142,118	3,336,279
Other irrevocable contingent liabilities	335	-	-	335
Total	5,407,526	602	142,118	5,550,246
Total credit risk exposure	32,906,401	348,661	475,140	33,730,202

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

Group Dec 31, 2016	Republic of Croatia	EU countries	Other countries	Total
Assets				
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
Total	26,723,010	322,540	230,913	27,276,463
Guarantees and commitments				
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
Total	5,942,961	602	-	5,943,563
Total credit risk exposure	32,665,971	323,142	230,913	33,220,026

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

Bank Sep 30, 2017	Republic of Croatia	EU countries	Other countries	Total
Assets				
Cash on hand and due from banks	380,930	347,402	9,289	737,621
Deposits with other banks	-	76	-	76
Loans to financial institutions	12,247,287	-	-	12,247,287
Loans to other customers	11,589,479	-	323,733	11,913,212
Assets available for sale	3,222,148	-	-	3,222,148
Other assets	4,438	237	-	4,675
Total	27,444,282	347,715	333,022	28,125,019
Guarantees and commitments				
Guarantees issued in HRK	20,424	602	-	21,026
Issued guarantees in foreign currency	2,191,616	-	-	2,191,616
Open letters of credit in foreign currency	990	-	-	990
Undrawn loans	3,194,161	-	142,118	3,336,279
Other irrevocable contingent liabilities	335	-	-	335
Total	5,407,526	602	142,118	5,550,246
Total credit risk exposure	32,851,808	348,317	475,140	33,675,265

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

Bank Dec 31, 2016	Republic of Croatia	EU countries	Other countries	Total
Assets				
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
Total	26,671,493	322,170	230,913	27,224,576
Guarantees and commitments				
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
Total	5,942,961	602	-	5,943,563
Total credit risk exposure	32,614,454	322,772	230,913	33,168,139

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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
	Sep 30, 2017	Sep 30, 2017	Dec 31, 2016	Dec 31, 2016
Financial intermediation and insurance	15,734,672	-	15,359,154	-
Water and electric supply and other infrastructure	1,238,166	947,121	1,322,277	959,881
Tourism	3,643,698	283,906	3,630,150	363,739
Transport, warehousing and connections	1,876,406	789,194	1,714,718	836,069
Shipbuilding	2,506,555	409,031	2,257,050	572,383
Agriculture and fishery	478,355	69,543	515,711	68,982
Food industry	1,018,003	181,995	1,159,546	205,632
Construction industry	1,130,121	24,447	1,225,887	53,900
Other industry	491,463	149,900	527,352	138,850
Public administration	2,443,045	2,443,045	2,426,716	2,426,716
Education	47,308	41,904	47,020	40,956
Manufacture of basic metals and fabricated metal products, except machinery and equipment	350,334	52,965	407,254	62,818
Manufacture of chemicals and chemical products	404,188	89,818	255,576	16,761
Manufacture of other non-metallic mineral products	201,528	3,829	273,959	4,399
Pharmaceutical industry	547,060	836	572,470	809
Other	1,619,300	480,651	1,525,185	311,092
Total credit risk exposure	33,730,202	5,968,185	33,220,026	6,062,987

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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
	Sep 30, 2017	Sep 30, 2017	Dec 31, 2016	Dec 31, 2016
Financial intermediation and insurance	15,726,433	-	15,352,325	-
Water and electric supply and other infrastructure	1,238,166	947,121	1,322,277	959,881
Tourism	3,643,698	283,906	3,630,150	363,739
Transport, warehousing and connections	1,875,969	788,757	1,714,322	835,673
Shipbuilding	2,506,555	409,031	2,257,050	572,383
Agriculture and fishery	478,332	69,521	515,702	68,974
Food industry	1,017,946	181,938	1,159,491	205,577
Construction industry	1,129,939	24,265	1,225,813	53,826
Other industry	491,155	149,591	527,143	138,641
Public administration	2,398,470	2,398,470	2,383,635	2,383,635
Education	47,308	41,904	47,020	40,956
Manufacture of basic metals and fabricated metal products, except machinery and equipment	350,283	52,915	407,200	62,764
Manufacture of chemicals and chemical products	404,166	89,795	255,537	16,721
Manufacture of other non-metallic mineral products	201,516	3,817	273,896	4,336
Pharmaceutical industry	546,225	-	571,663	-
Other	1,619,104	480,455	1,524,915	310,823
Total credit risk exposure	33,675,265	5,921,486	33,168,139	6,017,929

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 September 2017 (unaudited) (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 September 2017 amounted to HRK 27,762,017 thousand (31 December 2016: HRK 27,157,039 thousand), and for the Bank HRK 27,753,779 thousand (31 December 2016: HRK 27,150,210 thousand).

In the total net highest exposure of the Bank as of 30 September 2017, the credit risk of HRK 3,940,148 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 611,997 thousand (31 December 2016: HRK 867,410 thousand), from local (regional) authorities of HRK 504,120 thousand (31 December 2016: HRK 395,629 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 240,746 thousand (31 December 2016: HRK 242,735 thousand), government funds of HRK 33 thousand (31 December 2016: HRK 1,250 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 2,412,228 thousand (31 December 2016: HRK 2,399,224 thousand). In addition, an amount of HRK 171,024 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	
	Sep 30, 2017	Dec 31, 2016	Sep 30, 2017	Dec 31, 2016	Sep 30, 2017	Dec 31, 2016
A	1.13%	1.52%	32,003,912	31,671,378	31,948,975	31,619,491
B	34.50%	34.08%	1,726,290	1,548,648	1,726,290	1,548,648
C	96.10%	95.56%	-	-	-	-
Total			33,730,202	33,220,026	33,675,265	33,168,139

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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
Sep 30, 2017								
Assets								
Cash on hand and due from banks	739,907	-	-	739,907	-	-	-	-
Deposits with other banks	76	-	-	76	-	-	-	-
Loans to financial institutions	12,019,833	227,454	-	12,247,287	-	-	-	-
Loans to other customers	10,445,613	1,467,599	-	11,913,212	2,699,305	47,822	-	2,747,127
Financial assets at fair value through profit or loss	288	-	-	288	-	-	-	-
Assets available for sale	3,271,673	-	-	3,271,673	2,457,169	-	-	2,457,169
Assets held to maturity	1,404	-	-	1,404	1,404	-	-	1,404
Other assets	4,744	1,365	-	6,109	4,000	1,365	-	5,365
Total	26,483,538	1,696,418	-	28,179,956	5,161,878	49,187	-	5,211,065
Guarantees and commitments								
Guarantees issued in HRK	21,026	-	-	21,026	1,254	-	-	1,254
Issued guarantees in foreign currency	2,164,257	27,359	-	2,191,616	288,987	-	-	288,987
Open letters of credit in foreign currency	990	-	-	990	-	-	-	-
Undrawn loans	3,333,766	2,513	-	3,336,279	466,544	-	-	466,544
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
Total	5,520,374	29,872	-	5,550,246	757,120	-	-	757,120
Total credit risk exposure	32,003,912	1,726,290	-	33,730,202	5,918,998	49,187	-	5,968,185

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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
Dec 31, 2016								
Assets								
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
Total	25,763,576	1,512,887	-	27,276,463	4,931,347	35,326	-	4,966,673
Guarantees and commitments								
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
Total	5,907,802	35,761	-	5,943,563	1,096,314	-	-	1,096,314
Total credit risk exposure	31,671,378	1,548,648	-	33,220,026	6,027,661	35,326	-	6,062,987

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Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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
Sep 30, 2017								
Assets								
Cash on hand and due from banks	737,621	-	-	737,621	-	-	-	-
Deposits with other banks	76	-	-	76	-	-	-	-
Loans to financial institutions	12,019,833	227,454	-	12,247,287	-	-	-	-
Loans to other customers	10,445,613	1,467,599	-	11,913,212	2,699,305	47,822	-	2,747,127
Assets available for sale	3,222,148	-	-	3,222,148	2,412,890	-	-	2,412,890
Other assets	3,310	1,365	-	4,675	2,984	1,365	-	4,349
Total	26,428,601	1,696,418	-	28,125,019	5,115,179	49,187	-	5,164,366
Guarantees and commitments								
Guarantees issued in HRK	21,026	-	-	21,026	1,254	-	-	1,254
Issued guarantees in foreign currency	2,164,257	27,359	-	2,191,616	288,987	-	-	288,987
Open letters of credit in foreign currency	990	-	-	990	-	-	-	-
Undrawn loans	3,333,766	2,513	-	3,336,279	466,544	-	-	466,544
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
Total	5,520,374	29,872	-	5,550,246	757,120	-	-	757,120
Total credit risk exposure	31,948,975	1,726,290	-	33,675,265	5,872,299	49,187	-	5,921,486

In the total net highest exposure of the Group and the Bank, the amount of loans to other customers of HRK 1,525,570 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 609,680 thousand, local (regional) authorities of HRK 504,120 thousand, public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 240,746 thousand and the government funds of HRK 0 thousand. An additional amount of HRK 171,024 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 2,456,736 thousand for the Group and HRK 2,412,228 thousand for the Bank.

Other assets of HRK 2,015 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 September 2017 (unaudited) (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
Dec 31, 2016								
Assets								
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
Total	25,711,689	1,512,887	-	27,224,576	4,886,289	35,326	-	4,921,615
Guarantees and commitments								
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
Total	5,907,802	35,761	-	5,943,563	1,096,314	-	-	1,096,314
Total credit risk exposure	31,619,491	1,548,648	-	33,168,139	5,982,603	35,326	-	6,017,929

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 September 2017 (unaudited) (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
Sep 30, 2017				
Assets				
Cash on hand and due from banks	739,907	-	-	739,907
Deposits with other banks	76	-	-	76
Loans to financial institutions	11,729,583	290,250	227,454	12,247,287
Loans to other customers	10,269,097	176,516	1,467,599	11,913,212
Financial assets at fair value through profit or loss	288	-	-	288
Assets available for sale	3,271,673	-	-	3,271,673
Assets held to maturity	1,404	-	-	1,404
Other assets	3,593	1,151	1,365	6,109
Total	26,015,621	467,917	1,696,418	28,179,956
Guarantees and commitments				
Guarantees issued in HRK	21,026	-	-	21,026
Issued guarantees in foreign currency	2,164,257	-	27,359	2,191,616
Open letters of credit in foreign currency	990	-	-	990
Undrawn loans	3,333,766	-	2,513	3,336,279
Other irrevocable contingent liabilities	335	-	-	335
Total	5,520,374	-	29,872	5,550,246
Total credit risk exposure	31,535,995	467,917	1,726,290	33,730,202

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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
Dec 31, 2016				
Assets				
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
Total	25,384,031	379,545	1,512,887	27,276,463
Guarantees and commitments				
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
Total	5,907,802	-	35,761	5,943,563
Total credit risk exposure	31,291,833	379,545	1,548,648	33,220,026

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Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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
Sep 30, 2017				
Assets				
Cash on hand and due from banks	737,621	-	-	737,621
Deposits with other banks	76	-	-	76
Loans to financial institutions	11,729,583	290,250	227,454	12,247,287
Loans to other customers	10,269,097	176,516	1,467,599	11,913,212
Assets available for sale	3,222,148	-	-	3,222,148
Other assets	2,485	825	1,365	4,675
Total	25,961,010	467,591	1,696,418	28,125,019
Guarantees and commitments				
Guarantees issued in HRK	21,026	-	-	21,026
Issued guarantees in foreign currency	2,164,257	-	27,359	2,191,616
Open letters of credit in foreign currency	990	-	-	990
Undrawn loans	3,333,766	-	2,513	3,336,279
Other irrevocable contingent liabilities	335	-	-	335
Total	5,520,374	-	29,872	5,550,246
Total credit risk exposure	31,481,384	467,591	1,726,290	33,675,265

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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
Dec 31, 2016				
Assets				
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
Total	25,332,452	379,237	1,512,887	27,224,576
Guarantees and commitments				
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
Total	5,907,802	-	35,761	5,943,563
Total credit risk exposure	31,240,254	379,237	1,548,648	33,168,139

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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 Sep 30, 2017	Up to 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Assets						
Loans to financial institutions	210,002	55,790	23,657	801	-	290,250
Loans to other customers	70,863	2,634	21	1,612	101,386	176,516
Other assets	411	38	38	252	412	1,151
Total	281,276	58,462	23,716	2,665	101,798	467,917

Group Dec 31, 2016	Up to 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Assets						
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
Total	310,335	788	12,197	858	55,367	379,545

Bank Sep 30, 2017	Up to 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Assets						
Loans to financial institutions	210,002	55,790	23,657	801	-	290,250
Loans to other customers	70,863	2,634	21	1,612	101,386	176,516
Other assets	164	2	-	247	412	825
Total	281,029	58,426	23,678	2,660	101,798	467,591

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

Bank Dec 31, 2016	Up to 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Assets						
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
Total	310,261	661	12,110	838	55,367	379,237

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 87,167 thousand, i.e. 30%, relates to not executed extensions of short-term revolving loans.

Due to the maturity falling on 30 September 2017 being a non-working day, an amount of HRK 200.006 thousand, i.e. 69% of due but not impaired loans to financial institutions, was collected on 2 October 2017 being the first following working day.

From total due and not impaired loans to other customers in the reporting period, an amount of HRK 70,863 thousand, i.e. 40%, relates to delays of up to 15 days, of which the amount of HRK 13,904 thousand, i.e. 20%, 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.

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

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 all liabilities. 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 have been determined.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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 September 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 Sep 30, 2017	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash on hand and due from banks	739,917	-	-	-	-	739,917
Deposits with other banks	76	-	-	-	-	76
Loans to financial institutions*	989,428	1,052,929	1,394,685	2,949,319	5,860,926	12,247,287
Loans to other customers	1,972,564	207,291	889,924	1,963,395	6,880,038	11,913,212
Financial assets at fair value through profit or loss	288	-	-	-	-	288
Assets available for sale	3,303,536	10,269	240	-	-	3,314,045
Assets held to maturity	-	16	2	-	1,386	1,404
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	54,076	54,076
Non-current assets held for sale	-	-	1,972	2,765	12,308	17,045
Other assets	8,745	2,271	1,183	2	1,173	13,374
Total assets (1)	7,014,554	1,272,776	2,288,006	4,915,481	12,809,907	28,300,724
Liabilities						
Deposits	732,851	165,501	1,739	20,775	19,918	940,784
Borrowings	74,500	528,428	1,175,170	3,683,546	9,874,190	15,335,834
Bonds payable	-	26,805	-	1,114,417	-	1,141,222
Other liabilities	165,353	26,800	83,220	168,359	178,338	622,070
Total liabilities	972,704	747,534	1,260,129	4,987,097	10,072,446	18,039,910
Equity						
Founder's capital	-	-	-	-	6,984,632	6,984,632
Retained earnings and reserves	-	-	-	-	2,996,968	2,996,968
Other reserves	-	-	-	-	90,397	90,397
Net profit for the year	-	-	-	-	176,541	176,541
Total equity attributable to equity holders of the parent	-	-	-	-	10,248,538	10,248,538
Guarantee fund	-	-	-	-	12,276	12,276
Total equity	-	-	-	-	10,260,814	10,260,814
Total liabilities and total equity (2)	972,704	747,534	1,260,129	4,987,097	20,333,260	28,300,724
Net assets/liabilities (1) – (2)	6,041,850	525,242	1,027,877	(71,616)	(7,523,353)	-
Net cumulative assets/liabilities	6,041,850	6,567,092	7,594,969	7,523,353	-	-

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

* Receivables of HRK 1,312,480 thousand relate to reverse REPO agreements. The maturity of part of receivables was prolonged after the Statement of Financial Position date, and an amount of HRK 700,000 thousand was placed in the 1 up to 3 months maturity category.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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
Assets						
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
Total assets (1)	5,981,746	866,360	2,724,577	4,994,504	12,823,635	27,390,822
Liabilities						
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
Total liabilities	582,223	363,189	3,024,746	3,300,979	10,076,977	17,348,114
Equity						
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
Total equity attributable to equity holders of the parent	-	-	-	-	10,030,333	10,030,333
Guarantee fund	-	-	-	-	12,375	12,375
Total equity	-	-	-	-	10,042,708	10,042,708
Total liabilities and total equity (2)	582,223	363,189	3,024,746	3,300,979	20,119,685	27,390,822
Net assets/liabilities (1) – (2)	5,399,523	503,171	(300,169)	1,693,525	(7,296,050)	-
Net cumulative assets/liabilities	5,399,523	5,902,694	5,602,525	7,296,050	-	-

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 September 2017 (unaudited) (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 September 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 Sep 30, 2017	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash on hand and due from banks	737,631	-	-	-	-	737,631
Deposits with other banks	76	-	-	-	-	76
Loans to financial institutions*	989,428	1,052,929	1,394,685	2,949,319	5,860,926	12,247,287
Loans to other customers	1,972,564	207,291	889,924	1,963,395	6,880,038	11,913,212
Assets available for sale	3,254,487	10,033	-	-	-	3,264,520
Investments in subsidiaries	-	-	-	-	-	-
Investments in associates	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	54,022	54,022
Non-current assets held for sale	-	-	1,972	2,765	12,308	17,045
Other assets	7,734	1,885	1,146	2	911	11,678
Total assets (1)	6,961,920	1,272,138	2,287,727	4,915,481	12,844,329	28,281,595
Liabilities						
Deposits	732,851	165,501	1,739	20,775	19,918	940,784
Borrowings	74,500	528,428	1,175,170	3,683,546	9,874,190	15,335,834
Bonds payable	-	26,805	-	1,114,417	-	1,141,222
Other liabilities	164,772	25,626	78,738	159,322	180,886	609,344
Total liabilities	972,123	746,360	1,255,647	4,978,060	10,074,994	18,027,184
Equity						
Founder's capital	-	-	-	-	6,984,632	6,984,632
Retained earnings and reserves	-	-	-	-	2,995,656	2,995,656
Other reserves	-	-	-	-	86,336	86,336
Net profit for the year	-	-	-	-	175,511	175,511
Capital					10,242,135	10,242,135
Guarantee fund	-	-	-	-	12,276	12,276
Total equity	-	-	-	-	10,254,411	10,254,411
Total liabilities and total equity (2)	972,123	746,360	1,255,647	4,978,060	20,329,405	28,281,595
Net assets/liabilities (1) – (2)	5,989,797	525,778	1,032,080	(62,579)	(7,485,076)	-
Net cumulative assets/liabilities	5,989,797	6,515,575	7,547,655	7,485,076	-	-

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

* * Receivables of HRK 1,312,480 thousand relate to reverse REPO agreements. The maturity of part of receivables was prolonged after the Statement of Financial Position date, and an amount of HRK 700,000 thousand was placed in the 1 up to 3 months maturity category.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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
Assets						
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
Total assets (1)	5,931,910	865,843	2,724,451	4,994,504	12,858,208	27,374,916
Liabilities						
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
Total liabilities	581,592	361,920	3,019,944	3,294,706	10,078,774	17,336,936
Equity						
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
Capital	-	-	-	-	10,025,605	10,025,605
Guarantee fund	-	-	-	-	12,375	12,375
Total equity	-	-	-	-	10,037,980	10,037,980
Total liabilities and total equity (2)	581,592	361,920	3,019,944	3,294,706	20,116,754	27,374,916
Net assets/liabilities (1) – (2)	5,350,318	503,923	(295,493)	1,699,798	(7,258,546)	-
Net cumulative assets/liabilities	5,350,318	5,854,241	5,558,748	7,258,546	-	-

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 September 2017 (unaudited) (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:

Group Sep 30, 2017	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
Financial liabilities						
Deposits	732,851	165,501	1,739	20,775	19,918	940,784
Borrowings	100,165	501,689	1,374,467	4,129,466	10,605,419	16,711,206
Bonds payable	-	-	67,474	1,249,365	-	1,316,839
Other liabilities	165,353	26,800	83,220	168,359	178,338	622,070
Total	998,369	693,990	1,526,900	5,567,965	10,803,675	19,590,899

Group Dec 31, 2016	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
Financial liabilities						
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
Total	608,951	238,548	3,430,525	3,974,941	11,118,073	19,371,038

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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 Sep 30, 2017	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
Financial liabilities						
Deposits	732,851	165,501	1,739	20,775	19,918	940,784
Borrowings	100,165	501,689	1,374,467	4,129,466	10,605,419	16,711,206
Bonds payable	-	-	67,474	1,249,365	-	1,316,839
Other liabilities	164,772	25,626	78,738	159,322	180,886	609,344
Total	997,788	692,816	1,522,418	5,558,928	10,806,223	19,578,173

Bank Dec 31, 2016	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
Financial liabilities						
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
Total	608,320	237,279	3,425,723	3,968,668	11,119,870	19,359,860

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

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 September 2017 (unaudited) (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 September 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 September 2017 and 31 December 2016 which may not be indicative for the positions in other periods.

Group Sep 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
Assets							
Cash on hand and due from banks	2,286	-	-	-	-	737,631	739,917
Deposits with other banks	-	-	-	-	-	76	76
Loans to financial institutions	1,108,362	1,243,129	1,440,286	2,800,134	5,624,913	30,463	12,247,287
Loans to other customers	2,033,676	761,799	770,835	1,665,456	6,618,197	63,249	11,913,212
Financial assets at fair value through profit or loss	-	-	-	-	-	288	288
Assets available for sale	2,451,409	-	-	-	-	862,636	3,314,045
Assets held to maturity	-	-	-	-	1,386	18	1,404
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	54,076	54,076
Non-current assets held for sale	-	-	-	-	-	17,045	17,045
Other assets	-	-	-	-	-	13,374	13,374
Total assets (1)	5,595,733	2,004,928	2,211,121	4,465,590	12,244,496	1,778,856	28,300,724

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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 Sep 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
Liabilities							
Deposits	644,752	-	-	-	-	296,032	940,784
Borrowings	74,500	455,796	1,175,171	3,683,546	9,874,189	72,632	15,335,834
Bonds payable	-	-	-	1,114,417	-	26,805	1,141,222
Other liabilities	-	-	-	-	-	622,070	622,070
Total liabilities	719,252	455,796	1,175,171	4,797,963	9,874,189	1,017,539	18,039,910
Equity							
Founder's capital	-	-	-	-	-	6,984,632	6,984,632
Retained earnings and reserves	-	-	-	-	-	2,996,968	2,996,968
Other reserves	-	-	-	-	-	90,397	90,397
Net profit for the year	-	-	-	-	-	176,541	176,541
Total equity attributable to equity holders of the parent	-	-	-	-	-	10,248,538	10,248,538
Guarantee fund	-	-	-	-	-	12,276	12,276
Total equity	-	-	-	-	-	10,260,814	10,260,814
Total liabilities and total equity (2)	719,252	455,796	1,175,171	4,797,963	9,874,189	11,278,353	28,300,724
Net assets/liabilities (1) – (2)	4,876,481	1,549,132	1,035,950	(332,373)	2,370,307	(9,499,497)	-

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Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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
Assets							
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
Total assets (1)	4,601,967	1,684,645	2,955,328	4,433,048	12,086,260	1,629,574	27,390,822
Liabilities							
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
Total liabilities	355,442	171,450	2,909,559	3,059,168	9,841,749	1,010,746	17,348,114
Equity							
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
Total equity attributable to equity holders of the parent	-	-	-	-	-	10,030,333	10,030,333
Guarantee fund	-	-	-	-	-	12,375	12,375
Total equity	-	-	-	-	-	10,042,708	10,042,708
Total liabilities and total equity (2)	355,442	171,450	2,909,559	3,059,168	9,841,749	11,053,454	27,390,822
Net assets/liabilities (1) – (2)	4,246,525	1,513,195	45,769	1,373,880	2,244,511	(9,423,880)	-

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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 September 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 September 2017 and 31 December 2016 which may not be indicative for the positions in other periods.

Bank Sep 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
Assets							
Cash on hand and due from banks	-	-	-	-	-	737,631	737,631
Deposits with other banks	-	-	-	-	-	76	76
Loans to financial institutions	1,108,362	1,243,129	1,440,286	2,800,134	5,624,913	30,463	12,247,287
Loans to other customers	2,033,676	761,799	770,835	1,665,456	6,618,197	63,249	11,913,212
Assets available for sale	2,402,858	-	-	-	-	861,662	3,264,520
Investments in subsidiaries	-	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	54,022	54,022
Non-current assets held for sale	-	-	-	-	-	17,045	17,045
Other assets	-	-	-	-	-	11,678	11,678
Total assets (1)	5,544,896	2,004,928	2,211,121	4,465,590	12,243,110	1,811,950	28,281,595

Notes to the Consolidated Interim Condensed Financial Statements include
significant accounting policies and other explanations
for the period 1 January – 30 September 2017 (unaudited) (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 Sep 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
Liabilities							
Deposits	644,752	-	-	-	-	296,032	940,784
Borrowings	74,500	455,796	1,175,171	3,683,546	9,874,189	72,632	15,335,834
Bonds payable	-	-	-	1,114,417	-	26,805	1,141,222
Other liabilities	-	-	-	-	-	609,344	609,344
Total liabilities	719,252	455,796	1,175,171	4,797,963	9,874,189	1,004,813	18,027,184
Equity							
Founder's capital	-	-	-	-	-	6,984,632	6,984,632
Retained earnings and reserves	-	-	-	-	-	2,995,656	2,995,656
Other reserves	-	-	-	-	-	86,336	86,336
Net profit for the year	-	-	-	-	-	175,511	175,511
Capital	-	-	-	-	-	10,242,135	10,242,135
Guarantee fund	-	-	-	-	-	12,276	12,276
Total equity	-	-	-	-	-	10,254,411	10,254,411
Total liabilities and total equity (2)	719,252	455,796	1,175,171	4,797,963	9,874,189	11,259,224	28,281,595
Net assets/liabilities (1) – (2)	4,825,644	1,549,132	1,035,950	(332,373)	2,368,921	(9,447,274)	-

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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 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
Assets							
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
Total assets (1)	4,555,872	1,684,645	2,955,328	4,433,048	12,084,852	1,661,171	27,374,916
Liabilities							
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
Total liabilities	355,442	171,450	2,909,559	3,059,168	9,841,749	999,568	17,336,936
Equity							
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
Capital	-	-	-	-	-	10,025,605	10,025,605
Guarantee fund	-	-	-	-	-	12,375	12,375
Total equity	-	-	-	-	-	10,037,980	10,037,980
Total liabilities and total equity (2)	355,442	171,450	2,909,559	3,059,168	9,841,749	11,037,548	27,374,916
Net assets/liabilities (1) – (2)	4,200,430	1,513,195	45,769	1,373,880	2,243,103	(9,376,377)	-

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

	Group		Bank	
	Sep 30, 2017	Dec 31, 2016	Sep 30, 2017	Dec 31, 2016
Assets				
Fixed interest rate assets	25,098,785	23,991,858	25,046,562	23,944,355
Variable interest rate assets	1,423,083	1,769,390	1,423,083	1,769,390
Non-interest bearing	1,778,856	1,629,574	1,811,950	1,661,171
Total assets	28,300,724	27,390,822	28,281,595	27,374,916
Liabilities				
Fixed interest rate liabilities	17,021,434	16,333,589	17,021,434	16,333,589
Variable interest rate liabilities	937	3,779	937	3,779
Non-interest bearing	11,278,353	11,053,454	11,259,224	11,037,548
Total liabilities and total equity	28,300,724	27,390,822	28,281,595	27,374,916

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

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 Sep 30, 2017	Effect on profit Jan 1 to Sep 30, 2017	Increase in b.p. Jan 1 to Dec 31, 2016	Effect on profit Jan 1 to Dec 31, 2016
		HRK '000		HRK '000
EUR	+2	214	+4	535
USD	+28	1,010	+11	472

Currency	Decrease in b.p. Jan 1 to Sep 30, 2017	Effect on profit Jan 1 to Sep 30, 2017	Decrease in b.p. Jan 1 to Dec 31, 2016	Effect on profit Jan 1 to Dec 31, 2016
		HRK '000		HRK '000
EUR	-2	(214)	-4	(535)
USD	-28	(1,010)	-11	(472)

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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 September 2017 (unaudited) (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 September 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
Sep 30, 2017						
Assets						
Cash on hand and due from banks	9,328	347,477	2,626	359,431	380,486	739,917
Deposits with other banks	-	76	-	76	-	76
Loans to financial institutions	-	6,430,519	-	6,430,519	5,816,768	12,247,287
Loans to other customers	444,287	8,593,500	-	9,037,787	2,875,425	11,913,212
Financial assets at fair value through profit or loss	-	288	-	288	-	288
Assets available for sale	-	846,321	-	846,321	2,467,724	3,314,045
Assets held to maturity	-	1,404	-	1,404	-	1,404
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	54,076	54,076
Non-current assets held for sale	-	-	-	-	17,045	17,045
Other assets	-	516	-	516	12,858	13,374
Total assets (1)	453,615	16,220,101	2,626	16,676,342	11,624,382*	28,300,724
Liabilities						
Deposits	20,573	691,008	1,250	712,831	227,953	940,784
Borrowings	404,582	14,931,252	-	15,335,834	-	15,335,834
Bonds payable	-	1,141,222	-	1,141,222	-	1,141,222
Other liabilities	3,896	14,036	2,775	20,707	601,363	622,070
Total liabilities	429,051	16,777,518	4,025	17,210,594	829,316	18,039,910
Equity						
Founder's capital	-	-	-	-	6,984,632	6,984,632
Retained earnings and reserves	-	-	-	-	2,996,968	2,996,968
Other reserves	-	-	-	-	90,397	90,397
Net profit for the year	-	-	-	-	176,541	176,541
Total equity attributable to equity holders of the parent	-	-	-	-	10,248,538	10,248,538
Guarantee fund	-	12,276	-	12,276	-	12,276
Total equity	-	12,276	-	12,276	10,248,538	10,260,814
Total liabilities and total equity (2)	429,051	16,789,794	4,025	17,222,870	11,077,854	28,300,724
Net assets/liabilities (1) – (2)	24,564	(569,693)	(1,399)**	(546,528)	546,528	-

*Amounts linked to a one-way currency clause represent HRK 176,945 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 September 2017 (unaudited) (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
Dec 31, 2016						
Assets						
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
Total assets (1)	564,534	15,827,423	4,875	16,396,832	10,993,990*	27,390,822
Liabilities						
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
Total liabilities	363,977	16,234,326	6,344	16,604,647	743,467	17,348,114
Equity						
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
Total equity attributable to equity holders of the parent	-	-	-	-	10,030,333	10,030,333
Guarantee fund	-	12,375	-	12,375	-	12,375
Total equity	-	12,375	-	12,375	10,030,333	10,042,708
Total liabilities and total equity (2)	363,977	16,246,701	6,344	16,617,022	10,773,800	27,390,822
Net assets/liabilities (1) – (2)	200,557	(419,278)	(1,469)**	(220,190)	220,190	-

*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 September 2017 (unaudited) (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 September 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
Sep 30, 2017						
Assets						
Cash on hand and due from banks	9,328	347,477	2,626	359,431	378,200	737,631
Deposits with other banks	-	76	-	76	-	76
Loans to financial institutions	-	6,430,519	-	6,430,519	5,816,768	12,247,287
Loans to other customers	444,287	8,593,500	-	9,037,787	2,875,425	11,913,212
Assets available for sale	-	834,409	-	834,409	2,430,111	3,264,520
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	54,022	54,022
Non-current assets held for sale	-	-	-	-	17,045	17,045
Other assets	-	172	-	172	11,506	11,678
Total assets (1)	453,615	16,206,153	2,626	16,662,394	11,619,201*	28,281,595
Liabilities						
Deposits	20,573	691,008	1,250	712,831	227,953	940,784
Borrowings	404,582	14,931,252	-	15,335,834	-	15,335,834
Bonds payable	-	1,141,222	-	1,141,222	-	1,141,222
Other liabilities	3,658	6,377	2,721	12,756	596,588	609,344
Total liabilities	428,813	16,769,859	3,971	17,202,643	824,541	18,027,184
Equity						
Founder's capital	-	-	-	-	6,984,632	6,984,632
Retained earnings and reserves	-	-	-	-	2,995,656	2,995,656
Other reserves	-	-	-	-	86,336	86,336
Net profit for the year	-	-	-	-	175,511	175,511
Capital	-	-	-	-	10,242,135	10,242,135
Guarantee fund	-	12,276	-	12,276	-	12,276
Total equity	-	12,276	-	12,276	10,242,135	10,254,411
Total liabilities and total equity (2)	428,813	16,782,135	3,971	17,214,919	11,066,676	28,281,595
Net assets/liabilities (1) – (2)	24,802	(575,982)	(1,345)**	(552,525)	552,525	-

* Amounts linked to a one-way currency clause represent HRK 176,945 thousand.

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

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Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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
Dec 31, 2016						
Assets						
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
Total assets (1)	564,534	15,814,669	4,875	16,384,078	10,990,838*	27,374,916
Liabilities						
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
Total liabilities	363,813	16,227,558	6,299	16,597,670	739,266	17,336,936
Equity						
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
Capital	-	-	-	-	10,025,605	10,025,605
Guarantee fund	-	12,375	-	12,375	-	12,375
Total equity	-	12,375	-	12,375	10,025,605	10,037,980
Total liabilities and total equity (2)	363,813	16,239,933	6,299	16,610,045	10,764,871	27,374,916
Net assets/liabilities (1) – (2)	200,721	(425,264)	(1,424)**	(225,967)	225,967	-

*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 September 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

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 September 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 Sep 30, 2017 %	Effect on profit Jan 1 to Sep 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%	1,926	+1.5%	5,912
EUR	-1.5%	52	-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.

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 carrying out of outsourced activities, 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 September 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

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 September 2017 (unaudited) (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 September 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
Inputs:	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.

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Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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	Sep 30, 2017			Dec 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss:						
Shares in investment funds recognised at fair value through profit or loss	288	-	-	286	-	-
Total financial assets at fair value through profit or loss	288	-	-	286	-	-
Assets available for sale:						
Debt instruments:						
Listed debt instruments:						
Bonds of the Ministry of Finance of the Republic of Croatia	896,475	-	-	925,887	-	-
Financial institution bonds	878	-	-	910	-	-
Corporate bonds	786	-	-	1,161	-	-
Treasury bills of the Ministry of Finance of the Republic of Croatia	1,548,521	-	-	1,500,420	-	-
Accrued interest	10,369	-	-	14,495	-	-
Unlisted debt instruments:						
Corporate bonds	-	-	512	-	-	502
Accrued interest	-	-	150	-	-	99
Total debt instruments	2,457,029	-	662	2,442,873	-	601
Equity instruments:						
Listed equity instruments:						
Corporate shares	16,805	-	-	10,938	-	-
Unlisted equity instruments:						
Investment in shares of foreign companies	-	35	-	-	32	-
Investment in financial institutions shares	-	161	-	-	161	-
Shares of foreign financial institutions – EIF	-	25,371	-	-	25,815	-
Corporate shares	-	-	-	-	-	-
Total equity instruments	16,805	25,567	-	10,938	26,008	-
Investments in investment funds:						
Shares classified as assets available for sale	813,982	-	-	909,614	-	-
Total investments in investment funds	813,982	-	-	909,614	-	-
Total assets available for sale	3,287,816	25,567	662	3,363,425	26,008	601

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 September 2017 (unaudited) (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	Sep 30, 2017			Dec 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets available for sale:						
Debt instruments:						
Listed debt instruments:						
Bonds of the Ministry of Finance of the Republic of Croatia	853,824	-	-	884,914	-	-
Treasury bills of the Ministry of finance of the Republic of Croatia	1,548,521	-	-	1,500,420	-	-
Accrued interest	9,883	-	-	13,890	-	-
Unlisted debt instruments:						
Corporate bonds	-	-	512	-	-	502
Accrued interest	-	-	150	-	-	99
Total debt instruments	2,412,228	-	662	2,399,224	-	601
Equity instruments:						
Listed equity instruments:						
Corporate shares	16,805	-	-	10,938	-	-
Unlisted equity instruments:						
Investment in shares of foreign companies	-	35	-	-	32	-
Investment in financial institutions shares	-	161	-	-	161	-
Shares of foreign financial institutions – EIF	-	25,371	-	-	25,815	-
Corporate shares	-	-	-	-	-	-
Total equity instruments	16,805	25,567	-	10,938	26,008	-
Investments in investment funds:						
Shares classified as assets available for sale	809,258	-	-	906,803	-	-
Total investments in investment funds	809,258	-	-	906,803	-	-
Total assets available for sale	3,238,291	25,567	662	3,316,965	26,008	601

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.

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

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:

Segment:	Business activities of the segment include:
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

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

18. Reporting by segments (continued)

Sep 30, 2017	Banking activities	Insurance activities	Other activities	Unallocated	Total
Net interest income	358,502	1,234	-	-	359,736
Net fee income	28,774	954	795	-	30,523
Net income/(expenses) from financial operations	(18,878)	(112)	2	-	(18,988)
Net premiums earned	-	5,022	-	-	5,022
Other income	6,278	56	211	(220)	6,325
Income from operating activities	374,676	7,154	1,008	(220)	382,618
Operating costs	(107,296)	(4,841)	(806)	221	(112,722)
Impairment loss and provisions	(91,869)	(22)	(7)	-	(91,898)
Expenses for insured cases	-	(210)	-	-	(210)
Net change in provisions	-	(1,097)	-	-	(1,097)
Other expenses	-	(150)	-	-	(150)
Operating expenses	(199,165)	(6,320)	(813)	221	(206,077)
Profit/(loss) before income tax	175,511	834	195	1	176,541
Income tax	-	-	-	-	-
Profit/(loss) for the year	175,511	834	195	1	176,541
Assets of segment	28,281,595	54,780	1,006	(36,657)	28,300,724
Total assets	28,281,595	54,780	1,006	(36,657)	28,300,724
Liabilities of segment	18,027,184	12,690	65	(29)	18,039,910
Total equity	10,254,411	4,589	641	1,173	10,260,814
Total liabilities and total equity	28,281,595	17,279	706	1,144	28,300,724

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.

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

18. Reporting by segments (continued)

Sep 30, 2016	Banking activities	Insurance activities	Other activities	Unallocated	Total
Net interest income	302,808	1,242	-	-	304,050
Net fee income	18,857	954	730	-	20,541
Net income/(expenses) from financial operations	(11,128)	87	4	-	(11,037)
Net premiums earned	-	4,976	-	-	4,976
Other income	5,275	43	212	(223)	5,307
Income from operating activities	315,812	7,302	946	(223)	323,837
Operating costs	(112,011)	(3,925)	(795)	224	(116,507)
Impairment loss and provisions	(44,880)	63	10	-	(44,807)
Expenses for insured cases	-	(1,591)	-	-	(1,591)
Net change in provisions	-	(755)	-	-	(755)
Other expenses	-	(399)	-	-	(399)
Operating expenses	(156,891)	(6,607)	(785)	224	(164,059)
Profit/(loss) before income tax	158,921	695	161	1	159,778
Income tax	-	-	-	-	-
Profit/(loss) for the year	158,921	695	161	1	159,778
Dec 31, 2016					
Assets of segment	27,374,916	51,667	895	(36,656)	27,390,822
Total assets	27,374,916	51,667	895	(36,656)	27,390,822
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
Total liabilities and total equity	27,374,916	14,168	595	1,143	27,390,822

Intra-group transactions are presented under "Unallocated".

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Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 September 2017 (unaudited) (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	
	Sep 30, 2017	Dec 31, 2016	Sep 30, 2017	Dec 31, 2016
Original own funds – Tier 1	10,156,829	9,956,604	10,155,799	9,955,288
Additional own funds – Tier 2	334,876	333,571	334,876	333,571
Total own funds	10,491,705	10,290,175	10,490,675	10,288,859
Risk weighted assets	16,619,470	16,415,582	16,650,801	16,447,428
Capital requirements for currency risk	245,662	609,631	233,935	597,377
Total capital requirements	16,865,132	17,025,213	16,884,736	17,044,805
	%	%	%	%
Capital ratio (Tier 1)	60.22	58.48	60.15	58.41
Capital adequacy ratio	62.21	60.44	62.13	60.36
	HRK '000	HRK '000	HRK '000	HRK '000
Own funds needed for ensuring capital adequacy according to regulatory requirements	1,349,211	1,362,017	1,350,779	1,363,584

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 September 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

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 September 2017 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, on 9 October 2017, the Supervisory Board of HBOR, following the proposal of the Government of the Republic of Croatia, made a decision on the appointment of a new Management Board of HBOR.

As of 16 October 2017, Tamara Perko, MSc is appointed President of the Management Board of HBOR, and Hrvoje Čuvalo, MSc, Member of the Management Board.

The new Management Board is appointed for a five-year term of office.

20.2. Raising of funds

20.2.1. Agreement with the European Investment Bank

After the reporting period, on 5 November 2017, HBOR and the European Investment Bank (EIB) concluded the Finance Contract in the amount of EUR 250,000 thousand for financing the projects of small and medium-sized enterprises.

20.2.2. Agreement with the Council of Europe Development Bank

On 23 November 2017, HBOR signed a Loan Agreement with the Council of Europe Development Bank (CEB) in the amount of EUR 100,000 thousand for the financing of projects implemented by micro, small and medium-sized enterprises and local and regional government and/or other public sector entities in the Republic of Croatia.

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

	Sep 30, 2017	Sep 30, 2016
Premium earned		
Gross premium written	7,762	8,980
Premium impairment allowance originated and reserved on collection	(88)	-
Gross outward reinsurance premium	(3,001)	(3,792)
Net premium written	4,673	5,188
Changes in the gross unearned premium reserve	834	98
Changes in the gross unearned premium reserve, reinsurer's share	(573)	(310)
Net premium earned	4,934	4,976
Fee and commission income	1,749	1,684
Net investment income	1,119	1,326
Other operating income	47	32
Net income	7,849	8,018
Gross expense for returned premiums	(329)	(892)
Reinsurer's share	119	493
Gross reserve for returned premiums	(284)	(122)
Reinsurer's share	99	19
Net expense and reserve for returned premiums	(395)	(502)
Claims incurred	(208)	(1,712)
Claims incurred, reinsurer's share	59	121
Change in the claims provision	(3,459)	(1,664)
Change in the claims provision, share of reinsurance	1,795	1,012
Net claims incurred	(1,813)	(2,243)
Marketing and provision expenses	(251)	(557)
Administrative expenses	(4,325)	(3,829)
Other operating expenses	(38)	(37)
Net exchange differences other than those on financial instruments	3	6
Profit before income tax	1,030	856
Income tax	-	-
Profit/(loss) for the year	1,030	856
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Gains on revaluation of financial assets available for sale	1,969	1,832
Decrease in the fair value of financial assets available for sale	(1,189)	(322)
Transfer of realised gains on asset available for sale to statement of profit or loss	(1)	(201)
Transfer of realised losses on asset available for sale to statement of profit or loss	6	-
Deferred tax	(140)	(262)
Total items that may be reclassified subsequently to profit or loss:	645	1,047
Other comprehensive income after income tax	645	1,047
Total comprehensive income after income tax	1,675	1,903
Attributable to:		
Equity holders of the parent	1,675	1,903

Appendix - financial performance of the HKO Group

Statement of Financial Position as of (unaudited)

(All amounts are expressed in HRK thousand)

	Sep 30, 2017	Dec 31, 2016
Assets		
Non-current assets		
Property and equipment	53	86
Intangible assets	3	5
Held to maturity investments	1,404	1,422
Deferred tax	262	54
Total non-current assets	1,722	1,567
Current assets		
Investments available for sale	49,525	46,459
Investments at fair value through profit or loss	288	286
Receivables from insurance operations	1,253	985
Other receivables	183	2,185
Cash and cash equivalents	2,286	551
Total current assets	53,535	50,466
Total assets	55,257	52,033
Equity and liabilities		
Equity		
Share capital	37,500	37,500
Accumulated losses	1,167	(148)
Other reserves	2,833	2,188
Profit for the year	1,030	1,315
Total equity	42,530	40,855
Technical provisions		
Gross technical provisions	17,134	14,225
Technical provisions, reinsurer's share	(7,739)	(6,419)
	9,395	7,806
Current liabilities		
Liabilities from insurance operations	1,187	1,190
Other liabilities	2,145	2,182
Total liabilities	3,332	3,372
Total equity and liabilities	55,257	52,033

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

	Sep 30, 2017	Sep 30, 2016
Operating activities		
Profit before income tax	1,030	856
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>		
Depreciation	46	53
Impairment loss and provisions	28	(73)
Income tax	-	-
Accrued interest	114	156
<i>Operating profit before working capital changes</i>	<i>1,218</i>	<i>992</i>
Changes in operating assets and liabilities:		
Net decrease in deposits with other banks	-	3,000
Net realised losses/(gain) on assets available for sale	5	(201)
Decrease of discount in assets available for sale and assets held to maturity	319	303
Net gain/(losses) on financial assets at fair value through profit or loss	(4)	(128)
Premium receivables	(356)	41
Net decrease/(increase) in other assets	1,639	(414)
Net (decrease) of assets and liabilities from insurance operations	(3)	(283)
Net increase in technical provisions	1,588	968
Net increase in other liabilities	37	222
Net cash provided by operating activities	4,443	4,500
Investment activities		
(Purchase) of financial assets at fair value through profit or loss	-	(7,640)
Sale of financial assets at fair value through profit or loss	-	5,813
Net (purchase) of assets available for sale	(6,590)	(4,835)
Net sale of assets available for sale	3,744	2,125
Net (purchase) of property, plant and equipment and intangible assets	(10)	(4)
Net cash (used in) investment activities	(2,856)	(4,541)
Effect of foreign currency to cash and cash equivalents		
Net foreign exchange	148	247
Net effect	148	247
Net increase in cash and cash equivalents	1,735	206
Balance as of 1 January	551	242
Net increase in cash	1,735	206
Balance as of 30 September	2,286	448

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Appendix - financial performance of the HKO Group
Statement of Changes in Equity
for the period 1 January – 30 September (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
Balance as of 1 January 2016	37,500	(1,184)	874	1,036	38,226	38,226
Profit for the year	-	-	-	856	856	856
Other comprehensive income	-	-	1,047	-	1,047	1,047
Total comprehensive income	-	-	1,047	856	1,903	1,903
Transfer of profit 2015 to retained earnings	-	1,036	-	(1,036)	-	-
Balance as of 30 September 2016	37,500	(148)	1,921	856	40,129	40,129
Balance as of 1 January 2017	37,500	(148)	2,188	1,315	40,855	40,855
Profit for the year	-	-	-	1,030	1,030	1,030
Other comprehensive income	-	-	645	-	645	645
Total comprehensive income	-	-	645	1,030	1,675	1,675
Transfer of profit 2016 to retained earnings	-	1,315	-	(1,315)	-	-
Balance as of 30 September 2017	37,500	1,167	2,833	1,030	42,530	42,530