CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Unaudited Condensed Separate and Consolidated Interim Financial Statements for the Period 1 January – 30 September 2018

Zagreb, November 2018

Contents

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Responsibilities of the Management and Supervisory Boards for the preparation and approval of the condensed separate and consolidated interim financial statements
for the period 1 January – 30 September 2018

We confirm that, to the best of our knowledge, the condensed separate interim financial statements of the Croatian Bank for Reconstruction and Development ("the Bank" or "HBOR") and condensed consolidated interim financial statements of the Croatian Bank for Reconstruction and Development Group ("the Group") set out on pages 4 to 120 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.

The Management Board has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and the Group and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making judgements and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its Condensed interim financial statements which includes the condensed separate and consolidated interim financial statements. If the Supervisory Board approves the Condensed interim financial statements it is deemed confirmed by the Management Board and Supervisory Board.

The Condensed separate and consolidated interim financial statements on pages 4 to 120 have been approved by the Management Board on 23 November 2018 as confirmed by the signatures below.

For and on behalf of HBOR

Vedran Jakšić, MSc
Senior Executive Director

Marin Pranjić
Accounting Division Executive Director

HRVATSKA BANKA ZA OBNOVU I RAZVITAK
HBOR
ZAGREB
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Tamara Perko, MSc
President of the Management Board

Hrvoje Čuvalo, MSc
Member of the Management Board

Zagreb, 23 November 2018

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

		2018		2017	
	Notes	**Current period July 1 – September 30 HRK '000**	**Cumulatively January 1 – September 30 HRK '000**	**Current period July 1 – September 30 HRK '000**	**Cumulatively January 1 – September 30 HRK '000**
Interest income	6	182,109	563,143	209,356	661,197
Interest expense	7	(85,698)	(254,991)	(86,308)	(301,461)
Net interest income		**96,411**	**308,152**	**123,048**	**359,736**
Fee income		11,295	36,281	16,770	33,114
Fee expense		(1,174)	(3,319)	(914)	(2,591)
Net fee income		**10,121**	**32,962**	**15,856**	**30,523**
Net gains/(losses) on financial operations		(11,432)	6,957	(11,175)	(18,988)
Other income		3,133	10,974	2,985	11,347
		98,233	**359,045**	**130,714**	**382,618**
Operating expenses	8	(50,391)	(125,881)	(36,150)	(114,179)
Impairment loss and provisions	9	(145,202)	(134,481)	(48,773)	(91,898)
Profit before income tax		**(97,360)**	**98,683**	**45,791**	**176,541**
Income tax		-	-	-	-
Profit for the period		**(97,360)**	**98,683**	**45,791**	**176,541**
Attributable to:					
Owner of the Bank		**(97,360)**	**98,683**	**45,791**	**176,541**

The accompanying accounting policies and notes are an integral part of these financial statements.

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Condensed Consolidated Interim Financial Statements of the Group
Statement of Profit or Loss and Other Comprehensive Income
for the period 1 January – 30 September

(All amounts are expressed in HRK thousand)

	2018		2017	
	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000
Profit for the period	**(97,360)**	**98,683**	**45,791**	**176,541**
Other comprehensive income				
Items that are not transferred subsequently to profit or loss:				
Deferred tax – adjustment for previous period	-	(16)	-	-
Total items that are not transferred subsequently to profit or loss	**-**	**(16)**	**-**	**-**
Items that may be reclassified subsequently to profit or loss:				
Increase in fair value of financial assets at fair value through other comprehensive income	8,399	23,014	n/a	n/a
Decrease in fair value of financial assets at fair value through other comprehensive income	(6,156)	(22,674)	n/a	n/a
Increase in fair value of assets available for sale	n/a	n/a	20,624	42,387
Decrease in fair value of assets available for	n/a	n/a	(3,168)	(23,324)
Net foreign exchange on available for sale equity instruments	154	(303)	307	(210)
Transfer of realized gains on assets available for sale to statement of profit or loss	n/a	n/a	(514)	(8,630)
Transfer of realized losses on assets available for sale to statement of profit or loss	n/a	n/a	76	6,581
Impairment of financial assets at fair value through other comprehensive income	280	1,435	n/a	n/a
Transfer of realized gains of financial assets at fair value through other comprehensive income to statement of profit or loss	(23,830)	(23,830)	n/a	n/a
Transfer of realized losses of financial assets at fair value through other comprehensive income to statement of profit or loss	23,863	23,863	n/a	n/a
Deferred tax – other comprehensive income	(32)	(45)	(115)	(140)
Total items that may be reclassified subsequently to profit or loss	**2,678**	**1,460**	**17,210**	**16,664**
Other comprehensive income after income tax	**2,678**	**1,444**	**17,210**	**16,664**
Total comprehensive income after income tax	**(94,682)**	**100,127**	**63,001**	**193,205**
Attributable to:				
Owner of the Bank	**(94,682)**	**100,127**	**63,001**	**193,205**

**n/a = not applicable due to the implementation of IFRS 9*

The accompanying accounting policies and notes are an integral part of these financial statements.

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

	Notes	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000
Assets			
Cash on hand and current accounts with banks	10	1,154,409	1,403,680
Deposits with other banks	11	-	29,138
Loans to financial institutions	12	10,075,209	10,836,141
Loans to other customers	13	12,146,004	12,383,623
Financial assets at fair value through profit or loss	14	643,029	291
Financial assets at fair value through other comprehensive income	15	2,979,123	n/a
Debt instruments at amortised cost	16	1,373	n/a
Assets available for sale	17	n/a	3,321,564
Assets held to maturity	18	n/a	1,399
Investments in associates		-	-
Property, plant and equipment and intangible assets		51,230	53,557
Non-current assets held for sale	19	25,034	16,697
Other assets	20	15,612	29,471
Total assets		**27,091,023**	**28,075,561**
Liabilities			
Deposits from customers		212,520	644,741
Borrowings	21	15,081,579	15,387,881
Debt securities issued	22	1,133,752	1,161,699
Other liabilities	23	703,422	605,453
Total liabilities		**17,131,273**	**17,799,774**
Equity			
Founder's capital		7,059,632	7,009,632
Retained earnings and reserves		2,717,118	2,996,968
Other reserves		72,161	94,683
Profit for the period		98,683	162,201
		9,947,594	**10,263,484**
Guarantee fund		12,156	12,303
Total equity		**9,959,750**	**10,275,787**
Total liabilities and total equity		**27,091,023**	**28,075,561**

**n/a = not applicable due to the implementation of IFRS 9*

The accompanying accounting policies and notes are an integral part of these financial statements.

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Condensed Consolidated Interim Financial Statements of the Group
Statement of Cash Flows
for the period 1 January – 30 September

(All amounts are expressed in HRK thousand)

	Notes	2018 HRK '000	2017 HRK '000
Operating activities			
Profit before income tax		98,683	176,541
Adjustments to reconcile to net cash from and used in operating activities:			
Depreciation		4,806	5,742
Income tax		-	140
Impairment loss and provisions		134,481	91,898
Accrued interest		(27,363)	(59,064)
Deferred fees		(24,131)	(9,560)
Other changes in assets at fair value		9,410	(3,605)
Operating profit before working capital changes		*195,886*	*202,092*
Changes in operating assets and liabilities:			
Net decrease in deposits with other banks, before impairment		29,462	24,119
Net decrease/(increase) in loans to financial institutions, before impairment		890,056	(260,326)
Net (increase) in loans to other customers, before impairment		(252,051)	(588,756)
Net loss/(gain) on financial assets at fair value through profit or loss		29	(4)
Decrease of discount in debt securities issued		2,771	3,234
Net (increase)/decrease in non-current assets held for sale		(8,277)	212
Net (increase) in other assets, before impairment		(9,428)	(4,476)
Net increase/(decrease) in deposits from banks and companies		(432,240)	797,940
Net (decrease) in other liabilities, before provisions		(68,180)	(74,455)
Net cash from operating activities		**348,028**	**99,580**
Investment activities			
Net purchase of assets available for sale		n/a	(1,239,643)
Sale of assets available for sale		n/a	1,320,401
Purchase of financial assets at fair value through profit or loss		(1,500)	n/a
Sale of financial assets at fair value through profit or loss		168,292	n/a
Purchase of financial assets at fair value through other comprehensive income		(1,856,472)	n/a
Sale of financial assets at fair value through other comprehensive income		1,372,138	n/a
Net purchase of property, plant and equipment and intangible assets		(2,431)	(2,464)
Net cash (used in)/provided from investment activities		**(319,973)**	**78,294**
Financing activities			
Increase in founder's capital		50,000	25,000
Increase in borrowings – withdrawn funds		1,726,627	3,255,181
Decrease in borrowings – repayments of principal		(1,890,555)	(1,195,372)
Decrease in debt securities issued – repayment		-	(1,852,051)
Net cash (used in)/provided from financing activities		**(113,928)**	**232,758**
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		(164,025)	(161,404)
Net effect		**(164,025)**	**(161,404)**
Net (decrease)/increase in cash and cash equivalents		(249,898)	249,228
Balance as of 1 January, before impairment		1,404,538	494,325
Net (decrease)/increase in cash and cash equivalents		(249,898)	249,228
Balance as of 30 September, before impairment	**10**	**1,154,640**	**743,553**
Additional note - Operational cash flows			
Interest paid		252,010	354,581
Interest received		453,373	532,638

**n/a = not applicable due to the implementation of IFRS 9*

The accompanying accounting policies and notes are an integral part of these financial statements.

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Statement of Changes in Equity
for the period 1 January – 30 September
(All amounts are expressed in HRK thousand)

	Founder's capital HRK '000	Retained earnings and reserves HRK '000	Other reserves HRK '000	Profit for the year HRK '000	Total HRK '000
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**
Balance as at 31 December 2017	**7,009,632**	**2,996,968**	**94,683**	**162,201**	**10,263,484**
The effect of first time adoption of IFRS 9 as at 1 January 2018	-	(469,974)	-	-	**(469,974)**
Provisions recognised in Other comprehensive income	-	-	4,288	-	**4,288**
The effect of reclassification of financial assets under IFRS 9[1]	-	28,254	(28,254)	-	**-**
Other adjustments	-	(331)	-	-	**(331)**
Balance as of 1 January 2018	**7,009,632**	**2,554,917**	**70,717**	**162,201**	**9,797,467**
Profit for the period	-	-	-	98,683	**98,683**
Other comprehensive income	-	-	1,444	-	**1,444**
Total comprehensive income	-	-	1,444	98,683	**100,127**
Capital paid-in from the State Budget	50,000	-	-	-	**50,000**
Transfer of profit 2017 to retained earnings	-	162,201	-	(162,201)	**-**
Balance as of 30 September 2018	**7,059,632**	**2,717,118**	**72,161**	**98,683**	**9,947,594**

The accompanying accounting policies and notes are an integral part of these financial statements.

[1] *The effect of reclassification of financial assets that were measured under IAS 39 through other comprehensive income and reclassified under IFRS 9 as financial assets at fair value through profit or loss, due to which the effect was transferred from Other reserves (fair value reserve) to Retained Earnings.*

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

	Notes	2018		2017	
		Current period July 1 – September 30	**Cumulatively January 1 – September 30**	**Current period July 1 – September 30**	**Cumulatively January 1 – September 30**
		HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Interest income	6	181,785	562,087	208,951	659,963
Interest expense	7	(85,698)	(254,991)	(86,308)	(301,461)
Net interest income		**96,087**	**307,096**	**122,643**	**358,502**
Fee income		10,809	34,674	16,305	31,365
Fee expense		(1,174)	(3,319)	(914)	(2,591)
Net fee income		**9,635**	**31,355**	**15,391**	**28,774**
Net gains/(losses) on financial operations		(11,488)	7,204	(11,304)	(18,878)
Other income		1,384	5,958	1,308	6,278
		95,618	**351,613**	**128,038**	**374,676**
Operating expenses	8	(47,684)	(119,470)	(33,164)	(107,296)
Impairment loss and provisions	9	(145,155)	(134,431)	(48,719)	(91,869)
Profit before income tax		**(97,221)**	**97,712**	**46,155**	**175,511**
Income tax		-	-	-	-
Profit for the period		**(97,221)**	**97,712**	**46,155**	**175,511**
Attributable to:					
Owner of the Bank		**(97,221)**	**97,712**	**46,155**	**175,511**

The accompanying accounting policies and notes are an integral part of these financial statements.

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Condensed Separate Interim Financial Statements of the Bank
Statement of Profit or Loss and Other Comprehensive Income
for the period 1 January – 30 September

(All amounts are expressed in HRK thousand)

	2018		2017	
	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
	HRK '000	HRK '000	HRK '000	HRK '000
Profit for the period	**(97,221)**	**97,712**	**46,155**	**175,511**
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Increase in fair value of financial assets at fair value through other comprehensive income	8,105	22,177	n/a	n/a
Decrease in fair value of financial assets at fair value through other comprehensive income	(6,047)	(22,092)	n/a	n/a
Transfer of realized gains of financial assets at fair value through other comprehensive income to statement of profit or loss	(23,830)	(23,830)	n/a	n/a
Transfer of realized losses of financial assets at fair value through other comprehensive income to statement of profit or loss	23,863	23,863	n/a	n/a
Increase in fair value of assets available for sale	n/a	n/a	19,891	40,418
Decrease in fair value of assets available for sale	n/a	n/a	(3,079)	(22,135)
Net foreign exchange on available for sale equity instruments	154	(303)	307	(210)
Transfer of realized gains on assets available for sale to statement of profit or loss	n/a	n/a	(514)	(8,629)
Transfer of realized losses on assets available for sale to statement of profit or loss	n/a	n/a	76	6,575
Impairment of financial assets at fair value through other comprehensive income	286	1,441	n/a	n/a
Total items that may be reclassified subsequently to profit or loss	**2,531**	**1,256**	**16,681**	**16,019**
Other comprehensive income after tax	**2,531**	**1,256**	**16,681**	**16,019**
Total comprehensive income after tax	**(94,690)**	**98,968**	**62,836**	**191,530**
Attributable to:				
Owner of the Bank	**(94,690)**	**98,968**	**62,836**	**191,530**

**n/a = not applicable due to the implementation of IFRS 9*

The accompanying accounting policies and notes are an integral part of these financial statements.

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

	Notes	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000
Assets			
Cash on hand and current accounts with banks	10	1,140,392	1,401,146
Deposits with other banks	11	-	29,138
Loans to financial institutions	12	10,075,209	10,836,141
Loans to other customers	13	12,146,004	12,383,623
Financial assets at fair value through profit or loss	14	636,580	n/a
Financial assets at fair value through other comprehensive income	15	2,944,733	n/a
Assets available for sale	17	n/a	3,277,194
Investments in subsidiaries		36,124	36,124
Investments in associates		-	-
Property, plant and equipment and intangible assets		51,152	53,514
Non-current assets held for sale	19	25,034	16,697
Other assets	20	13,628	22,226
Total assets		**27,068,856**	**28,055,803**
Liabilities			
Deposits from customers		212,520	644,741
Borrowings	21	15,081,579	15,387,881
Debt securities issued	22	1,133,752	1,161,699
Other liabilities	23	689,014	592,651
Total liabilities		**17,116,865**	**17,786,972**
Equity			
Founder's capital		7,059,632	7,009,632
Retained earnings and reserves		2,715,028	2,995,656
Other reserves		67,463	90,457
Profit for the period		97,712	160,783
		9,939,835	**10,256,528**
Guarantee fund		12,156	12,303
Total equity		**9,951,991**	**10,268,831**
Total liabilities and total equity		**27,068,856**	**28,055,803**

**n/a = not applicable due to the implementation of IFRS 9*

The accompanying accounting policies and notes are an integral part of these financial statements.

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

	Notes	2018 HRK '000	2017 HRK '000
Operating activities			
Profit before income tax		97,712	175,511
Adjustments to reconcile to net cash from and used in operating activities:			
Depreciation		4,771	5,697
Impairment loss and provisions		134,431	91,869
Accrued interest		(27,618)	(59,177)
Deferred fees		(24,131)	(9,560)
Other changes in assets at fair value		9,201	(3,929)
Operating profit before working capital changes		*194,366*	*200,411*
Changes in operating assets and liabilities:			
Net decrease in deposits with other banks, before impairment		29,462	24,119
Net decrease/(increase) in loans to financial institutions, before impairment		890,056	(260,326)
Net (increase) in loans to other customers, before impairment		(252,051)	(588,756)
Decrease of discount in debt securities issued		2,771	3,234
Net (increase)/decrease in non-current assets held for sale		(8,277)	212
Net (increase) in other assets, before impairment		(14,709)	(6,316)
Net (decrease)/increase in deposits from banks and companies		(432,240)	797,940
Net (decrease) in other liabilities, before provisions		(69,271)	(75,381)
Net cash from operating activities		**340,107**	**95,137**
Investment activities			
Net purchase of assets available for sale		n/a	(1,233,053)
Sale of assets available for sale		n/a	1,316,657
Sale of financial assets at fair value through profit or loss		168,292	n/a
Purchase of financial assets fair value through other comprehensive income		(1,856,472)	n/a
Sale of financial assets fair value through other comprehensive income		1,367,138	n/a
Net purchase of property, plant and equipment and intangible assets		(2,361)	(2,454)
Net cash (used in)/provided from investment activities		**(323,403)**	**81,150**
Financing activities			
Increase in founder's capital		50,000	25,000
Increase in borrowings – withdrawn funds		1,726,627	3,255,181
Decrease in borrowings – repayments of principle		(1,890,555)	(1,195,372)
Decrease in debt securities issued – repayment		-	(1,852,051)
Net cash (used in)/provided from financing activities		**(113,928)**	**232,758**
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		(164,157)	(161,552)
Net effect		**(164,157)**	**(161,552)**
Net (decrease)/increase in cash and cash equivalents		(261,381)	247,493
Balance as of 1 January, before impairment		1,402,004	493,774
Net (decrease)/increase in cash and cash equivalents		(261,381)	247,493
Balance as at 30 September, before impairment	10	**1,140,623**	**741,267**
Additional note – operating activities			
Interest paid		252,010	354,581
Interest received		451,888	530,972

**n/a = not applicable due to the implementation of IFRS 9*

The accompanying accounting policies and notes are an integral part of these financial statements.

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

	Founder's capital HRK '000	Retained earnings and reserves HRK '000	Other reserves HRK '000	Profit for the period HRK '000	Total HRK '000
Balance as at 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 at 30 September 2017	**6,984,632**	**2,995,656**	**86,336**	**175,511**	**10,242,135**
Balance as at 31 December 2017	**7,009,632**	**2,995,656**	**90,457**	**160,783**	**10,256,528**
The effect of first time adoption of IFRS 9 as at 1 January 2018	-	(469,658)	-	-	**(469,658)**
Provisions recognised in Other comprehensive income	-	-	3,997	-	**3,997**
The effect of reclassification of financial assets under IFRS 9[2]	-	28,247	(28,247)	-	-
Balance as at 1 January 2018	**7,009,632**	**2,554,245**	**66,207**	**160,783**	**9,790,867**
Profit for the period	-	-	-	97,712	**97,712**
Other comprehensive income	-	-	1,256	-	**1,256**
Total comprehensive income	-	-	1,256	97,712	**98,968**
Capital paid-in from the State Budget	50,000	-	-	-	**50,000**
Transfer of profit 2017 to retained earnings	-	160,783	-	(160,783)	-
Balance as at 30 September 2018	**7,059,632**	**2,715,028**	**67,463**	**97,712**	**9,939,835**

The accompanying accounting policies and notes are an integral part of these financial statements.

[2] *The effect of reclassification of financial assets that were measured under IAS 39 through other comprehensive income and reclassified under IFRS 9 as financial assets at fair value through profit or loss, due to which the effect was transferred from Other reserves (fair value reserve) to Retained Earnings.*

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1. General information

1.1. Group:

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

The headquarters of the Bank is located at 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, which is 100% owner of Poslovni info servis d.o.o.

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

On 30 September 2018, the Group had 390 employees (on 30 September 2017: 383 employees), of which 2 are new employees and 5 employees are in substitution for maternity leave, long-term sick leave and return from unpaid leave.

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.

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1. General information (continued)

1.2. Bank (continued):

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

- Zdravko Marić, DSc, Minister of Finance - ex officio President of the Supervisory Board,
- Darko Horvat, 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,
- Tomislav Tolušić, Deputy Prime Minister and Minister of Agriculture,
- Gabrijela Žalac, Minister of Regional Development and EU Funds,
- Gari Cappelli, Minister of Tourism,
- 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,
- 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 30 September 2018, HBOR had 371 employees (on 30 September 2017: 366 employees), of which 5 employees are in substitution for maternity leave, long-term sick leave and return from unpaid leave.

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

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

1. General information (continued)

1.2. Bank (continued):

1.2.1. Activities of the Bank:

The principal activities of the Bank comprise the following:

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

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

2. Basis of Preparation of the Condensed Interim Financial Statements

The Condensed Interim Financial Statements of the Bank and HBOR Group for the period 1 January to 30 September 2018 have been prepared in accordance with the International Accounting Standard 34 Interim Financial Reporting.

The Condensed Interim Financial Statements for the period from 1 January to 30 September 2018 do not include all information and disclosures that are required in the annual financial statements and should be read in combination with the annual financial statements of the HBOR Group for the year ended 31 December 2017, except for changes in the accounting of financial instruments arising from the application of IFRS 9 Financial instruments. The application of IFRS 9 resulted in changes in the accounting policies relating to the classification and measurement and impairment of financial assets as well as derecognition.

Changes in significant accounting policies are described in Note 4.1.

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

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3. Significant accounting judgments and estimates

For the preparation of financial statements in accordance with IFRSs, the Management Board is required to give estimations and make assumptions that influence the reported balances of assets and liabilities and to disclose contingent amounts of assets and liabilities at the date of financial statements, and present income and expense for the reporting period. Estimations and related assumptions are based on historical experience and various other factors that are considered to be reasonable in the given circumstances and with available information as of the date of preparation of the financial statements, which together form the basis for estimating the carrying amount of assets and liabilities that cannot be easily identified from other sources. Actual results may differ from these estimations. Estimations and related assumptions are continuously reviewed. Changes in accounting estimates are recognised in the period in which the estimate is changed if the change affects only that period, or in the period of change or future periods if the change affects the current and future periods.

Significant accounting judgements and estimates were the same as those described in the last annual financial statements, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 9, which are described in Note 4.1.

4. Summary of significant accounting policies

4.1. Accounting policies

Since 1 January 2018, the Group has applied the International Standard of Financial Reporting (IFRS) 9 Financial Instruments and has not restated comparative data for 2017, as allowed by the standard. Pursuant to the mentioned, the current period from 1 January to 30 September 2018 is based on IFRS 9, whereas the results for 2017 and for the period from 1 January to 30 September 2017 are based on the International Accounting Standard (IAS) 39, Financial instruments: recognition and measurement and comparative data for 2017 are not comparable with the information presented in 2018.

The effects of the application of IFRS 9 recognised directly in retained earnings and reserves as at 1 January 2018 for the Group amount to HRK 469.97 million and for the Bank amount to HRK 469.66 million.

Detailed description of changes has been disclosed in notes 4.1.1. Changes in accounting policies due to the application of IFRS 9 Financial instruments and 5. Transition to IFRS 9 of these condensed interim financial statements.

Since 1 January 2018, the Group has also applied the International Financial Reporting Standard 7R (revised due to the application of IFRS 9) in the extent required for the preparation of interim financial standards in accordance with IAS 34.

Other basic accounting policies applied in the preparation of condensed interim financial statements are the same as for the preparation of the Annual Financial Statements as at 31 December 2017 that are publicly available at the address: http://www.hbor.hr.

Although subsidiary companies, the HKO Group, due to immateriality, uses the temporary exemption from 1 January 2018 until 1 January 2021, pursuant to the amendment of IFRS 4 – application of IFRS 9 Financial instruments with IFRS 4 Insurance Contracts, and the financial statements of the Group are prepared with the full application of IFRS 9.

4. Summary of significant accounting policies (continued)

4.1. Accounting policies (continued)

4.1.1. Changes in the accounting policies due to the application of IFRS 9 Financial instruments

I. Financial assets

Financial assets are initially recognised at their fair value, which is, in case of financial assets that are not subsequently measured at fair value through profit or loss, increased by transaction costs that may be directly attributed to the acquisition or issuing of financial assets. If the fair value of the financial assets is different from the transaction cost, the difference established in such manner is recognised in the statement on profit and loss.

Financial assets of the Group consist of:

- Cash in hand and funds on the transaction accounts,
- Deposits with banks,
- Loans,
- Debt securities,
- Equity securities,
- Shares in investment funds,
- Derivative financial assets and
- Other receivables.

a) Business models

All financial assets, except for investments in equity securities classified in the category of investments in associates and subsidiary with more than 20% of voting power or control, are grouped in business models which reflects how the Group manages the group of financial assets to realise certain business objective and to generate cash flows.
Business models of the Group are:

- Business model, whose objective is to hold assets for the collection of contractual cash flows – it includes all financial assets held for the purpose of collection of contractual cash flows over the lifetime of the financial instrument.
  For the purpose of classification in this business model, financial assets goes through the SPPI (Solely payment of principal and interest) test, and the following financial assets are allocated to this model:
  - Cash on hand and funds on transaction accounts,
  - Deposits with banks,
  - Loans and reversed repo placements,
  - Other receivables,

  Credit risk is a basic risk managed under this business model.
- Business model aimed to collect the contractual cash flows and sale of financial assets – it includes financial assets held for the purpose of collecting the agreed cash flows and sale of financial assets.
  The following financial assets are allocated to the business model for the purpose of collection and sale:
  - Debt securities (pass SPPI test),
  - Equity securities (fail SPPI test),
  - Shares in investment funds (fail SPPI test),

  Liquidity risk is a basic risk managed under this business model.

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4. Summary of significant accounting policies (continued)

4.1. Accounting policies (continued)

4.1.1. Changes in the accounting policies due to the application of IFRS 9 Financial instruments (continued)

I. Financial assets (continued)

a) Business models (continued)

- Business model under which financial assets are measured at fair value through profit and loss account (fail SPPI test) – combines all financial assets that are not held under the previously mentioned two business models.
  Financial assets under this business model are managed for the purpose of generating cash flows from the sale of assets and generating short-term profit.

b) SPPI test

Test of features of contractual cash flows from the point of view of solely payment of principal and interest (hereinafter: SPPI test) is one of the criteria for the classification of financial assets in an individual category of measurement. SPPI test is implemented for the purpose of establishing whether the interest rate on unsettled principle reflects the fee for time value of money, credit risk and other basic risks of borrowing, lending costs and profit margin.

SPPI test is performed:
- For each financial asset, allocated to a business model whose purpose is to hold financial assets for the payment of contractual cash flows and a business model for the purpose of collecting contractual cash flows and selling financial asset on the date of its initial recognition,
- For each financial asset in cases where the original asset has been significantly modified and therefore re-recognised as new assets,
- When introducing new models and/or loan programs to determine in advance the eligibility of the considered loan term and conditions in relation to the need to subsequently monitor the value of any financial assets that would arise from them.

c) Classification of financial assets

All financial assets are classified based on the allocation of financial assets in business models and SPPI test as assets measured subsequently at:

1) amortised cost, if both conditions are fulfilled:
- financial assets are allocated to the business model with the objective of holding the assets for the purpose of collection of contractual cash flows and
- financial asset pass SPPI test – for financial assets, cash flows are established that are solely payment of principal and interest on unsettled principal amount.

2) fair value through other comprehensive income, if both conditions are fulfilled:
- financial assets are allocated to the business model with the objective of collecting the contractual cash flows and selling financial assets and

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4. Summary of significant accounting policies (continued)

4.1. Accounting policies (continued)

4.1.1. Changes in the accounting policies due to the application of IFRS 9 Financial instruments (continued)

I. Financial assets (continued)

c) Classification of financial assets (continued)

- financial asset pass SPPI test – for financial assets, cash flows are established that are solely payment of principal and interest on unsettled principal amount.

3) fair value through profit and loss
Financial value is measured at fair value through profit and loss, if not measured at amortised cost or at fair value through other comprehensive income. Exceptionally, for investments in equity instruments that would otherwise be measured at fair value through profit and loss, at the initial recognition there is a possibility of irrevocable option of classification of the asset at fair value through other comprehensive income. In such case, the loss allowance recognised under other comprehensive income will never be transferred to statement on profit and loss, even in the case of derecognition of a financial instrument (financial assets valued at fair value through other comprehensive income without „recycling"). The Bank has used this possibility for a portion of equity instruments.

d) Reclassification of financial assets

In case of change in the business model of financial assets management, all financial assets affected by the reclassification will be reclassified. Reclassification will be made prospectively, from the date of the reclassification, or from the first day of the next accounting period, respectively, without restating the previously recognised profit, loss or interest.

e) Impairment

Impairment of financial assets is recognised under the model of expected credit losses for assets that are subsequently measured at amortised cost and assets that are subsequently measured at fair value through other comprehensive income.
Impairment is performed during the accounting periods and at the year end at the balance sheet date, and the effects of impairment are stated for each asset individually in the statement on financial position, other comprehensive income and statement on profit and loss.

Impairment is performed by applying the general and simplified approach.

According to the **general approach** of impairment, financial assets are allocated at initial recognition to:

- Stage 1 – financial assets with no significant credit risk or
- POCI assets as financial assets that are purchased or originally credit impaired that are allocated to stage 3.

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4. Summary of significant accounting policies (continued)

4.1. Accounting policies (continued)

4.1.1. Changes in the accounting policies due to the application of IFRS 9 Financial instruments (continued)

I. Financial assets (continued)

e) Impairment (continued)

At the future reporting dates, all financial assets that have not been recognised as POCI assets are allocated in risk categories depending on the assessment whether significant increase in credit risk occurred and in accordance with other credit impairment criteria to three stages:
Stage 1 – financial instruments with low credit risk are allocated to this stage, such as:

- Financial instruments of issuers with investment rating given by external credit rating agencies
- Exposures to the Republic of Croatia and units of local and regional government, the Croatian National Bank, the European Investment Bank or other development banks.

Financial instruments which are not deemed instruments of low credit risk only due to the value of collaterals, because without such collaterals they are not deemed low credit risk instruments.

For financial instruments allocated to this stage, impairments are calculated on a collective basis for twelve-month expected credit losses.

Stage 2 – financial instruments of clients where significant increase in credit risk is identified since initial recognition to this stage. Also individually significant clients included in the watch list, are also in this category.

For detailed explanation of the triggers for classification in Stage 2 please see note 26. Risk management.

For the financial instruments of clients classified into Stage 2, loss allowances are calculated on a collective basis for lifetime expected credit losses.

Stage 3 – financial instruments of clients in default – where objective evidence of the impairement has been identified as well as purchased or originated credit-impaired (POCI) financial assets.

Financial assets recognised as POCI assets remain allocated to Stage 3 until derecognition.

Expected credit losses are measured on a collective basis for clients allocated to Stage 1 and Stage 2 as well as for clients allocated to Stage 3, which are in the portfolio of small loans (gross exposure amount equal or lower than HRK 1,500 thousand), whereas individual assessment is carried out for the financial instruments of clients who are in a default status and for POCI assets.

4. Summary of significant accounting policies (continued)

4.1. Accounting policies (continued)

4.1.1. Changes in the accounting policies due to the application of IFRS 9 Financial instruments (continued)

I. Financial assets (continued)

e) Impairment (continued)

When measuring the expected credit losses on a collective basis, HBOR has, on the basis of common credit risk characteristics, defined the following homogeneous groups:

- financial institutions,
- central government and local and regional government,
- direct large,
- direct SME,
- direct MICRO,
- direct citizens, and
- other receivables.

The calculation of the expected credit losses, i.e. probability of default (PD), for the category of central government and local and regional government was based on the ratings of external rating agencies for the Republic of Croatia: Standard & Poor's and on the publicly available reports of rating agencies on historical default rates.

The assessment of credit losses for financial institutions is based on the mapping of HBOR's ratings with the PDs of S&P rating agency, where the rating of Zagrebačka banka and the PD of Zagrebačka banka is used as the benchmark because this bank has an established rating.

The approach based on migration matrices was used for the modelling of PDs in the categories of direct loans (large, small and medium, micro, citizens) and others – development of exposure among the following risk categories:

- from 0 to 30 days overdue – Stage 1,
- from 31 to 90 days overdue – Stage 2,
- more than 90 days overdue and restructuring – default.

Credit loss is the difference between all contractual cash-flows and all cash-flows expected from debtors, discounted to the present value by using the original effective interest rate, or, in the case of POCI assets, by using the credit risk adjusted effective interest rate.

For the financial assets subsequently measured at amortised cost, the impairment is recognised in Profit or Loss, and the loss allowances reduce the carrying value of financial assets in the Statement of Financial Position. In the case of a reduction of the expected credit losses or due to the collection of receivables, loss allowances are reduced or cancelled in the Statement of Financial Position and are simultaneously recognised as income from the reversed loss allowance or income upon the collection in the Statement of Profit or Loss.

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4. Summary of significant accounting policies (continued)

4.1. Accounting policies (continued)

4.1.1. Changes in the accounting policies due to the application of IFRS 9 Financial instruments (continued)

I. Financial assets (continued)

e) Impairment (continued)

Impairment of financial assets classified at fair value through other comprehensive income is calculated by applying the model of expected credit losses in the manner that the loss allowances are recognised in other comprehensive income and do not reduce the carrying value of these financial assets in the Statement of Financial Position, with all gains or losses resulting from the impairment recognised in the Statement of Profit or Loss.

Gains or losses resulting from the change in the fair value of these financial assets are recognised as other comprehensive income, whereas foreign exchange gains or losses are recognised in the Statement of Profit or Loss.

The accumulated gains/losses recognised as other comprehensive income are reclassified from equity to the Profit or Loss after derecognition of assets and represent the reclassification adjustment, except for equity securities classified as financial assets at fair value through other comprehensive income, where reserves recognized within other comprehensive income will never be transferred to profit and loss.

Financial assets classified as assets at fair value through the Profit or Loss are initially and subsequently measured at the established fair value and are not subject to impairment; the fair value of assets is, however, established in accordance with the internal documents that regulate the methods of determining the value of financial instruments until derecognition of financial instruments.
Decrease or increase in the fair value of these financial assets is recorded through the increase or decrease in their carrying amount in the Statement of Financial Position, whereas gains or losses resulting from the change in the fair value are recognised in the Statement on Profit or Loss.

Simplified approach of impairment can be applied only from receivables from customers or receivables for leases as well as on other non-interest fees, and this impairment always equals the amount of the expected credit losses during the lifetime of the instrument.

At the initial recognition, the financial assets are allocated to Stage 2 (all financial assets that have not been credit impaired at initial recognition) or Stage 3 (all purchased or originated credit-impaired assets – POCI assets).

At the future reporting dates, all financial assets that have not been recognised as POCI assets are allocated exclusively in accordance with the credit impairment criteria to Stage 2 and Stage 3.

Financial assets that have been recognised as POCI assets remain allocated to Stage 3 until derecognition.
Details regarding the methodology are stated in Note 26 Risk Management.

4. Summary of significant accounting policies (continued)

4.1. Accounting policies (continued)

4.1.1. Changes in the accounting policies due to the application of IFRS 9 Financial instruments (continued)

I. Financial assets (continued)

f) Modification of financial assets

Modification of financial assets means any change in contractual terms that results in the change in contractual cash-flows. In the case of a modification that is not substantial, the change in contractual terms does not result in the derecognition of the respective financial assets and the new gross carrying amount is established as present value of modified contractual cash-flows discounted by applying the original effective interest rate (EIR).
The difference between the original gross carrying amount before modification and the gross carrying amount established on the basis of modified cash-flows after modification is recognised in Profit or Loss.

In the case of a substantial modification of financial assets, the financial assets are derecognised before modification and the modified financial assets are newly recognised as "new" financial assets and the new effective interest rate is established. The date of modification of contractual provisions is considered to be the date of initial recognition.
Impairment of newly recognised financial assets is recognised in the amount of the expected credit losses in a twelve-month period (Stage 1) until the conditions for the reclassification to Stage 2 have been met. If it is established that the modified financial assets at initial recognition have been credit impaired, the financial assets are recognised as purchased or originated credit-impaired financial assets (POCI assets) and the credit risk adjusted effective interest rate is determined.

g) Purchased or originated credit-impaired financial assets (POCI assets)

POCI assets are financial assets for which, at initial recognition, there is objective evidence of credit impairment as the credit risk of originated or issued assets is very high or, in the case of purchase, the assets have been purchased at a high discount.
At initial recognition, the expected credit losses are included in the fair value of POCI assets and the loss allowance equal zero.
On the reporting date, only cumulative changes in the lifetime expected credit losses that occur after the initial recognition of POCI assets are recognised as loss allowance for the impairment of POCI assets.
For the purposes of impairment calculation, the lifetime expected credit losses are always recognised for these assets.
POCI assets remain allocated to Stage 3 until derecognition.

4. Summary of significant accounting policies (continued)

4.1. Accounting policies (continued)

4.1.1. Changes in the accounting policies due to the application of IFRS 9 Financial instruments (continued)

I. Financial assets (continued)

h) Interest income

Interest income for assets measured subsequently at amortised cost is calculated by using the effective interest rate (EIR) method, it is allocated and recorded in the Statement of Profit or Loss during a given period of time and relates to the entire interest income from financial instrument, including income from regular interest, subsidised interest and all fees of financial instrument that are a constituent element of the effective interest rate calculation.

Interest income is recognised depending on the credit risk stage of financial instrument, and the effective interest rate is applied on the gross carrying value of the financial assets when calculating interest income for the financial assets categorised as Stage 1 and Stage 2, whereas the effective interest rate is applied on the amortised cost of the financial assets when calculating interest income for the financial assets categorised as Stage 3. In the case of a reduction in credit risk and transfer of the financial assets from Stage 3 to Stage 2, the effective interest rate is again applied on the gross carrying value of the financial assets when calculating interest income in the future reporting periods.

For the purchased or originated credit-impaired financial assets (POCI assets), the credit risk adjusted effective interest rate is applied on the amortised cost of the POCI assets when calculating interest income.

4.2. Standards, supplements and interpretations of existing standards that are not yet in force and that have not been applied in the preparation of these financial statements

Numerous new standards and supplements to standards are in force for annual periods beginning on or after 1 January 2018 and earlier application is allowed; however, the Group has not adopted them earlier for the preparation of these financial statements. The Group considers that new standards and additions to the standards will not have a significant impact on consolidated and separate financial statements.

The Group estimates and quantifies possible effects of the implementation of IFRS 16 Leases as of 1 January 2019 that will be disclosed in the Annual Financial Statements of the HBOR Group for 2018.

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5. Transition to IFRS 9

Below, the impact of adoption of IFRS 9 on the Statement of Financial Position and the Retained Earnings and Reserves of the Group and the Bank is presented, including the effect of replacement of accounting losses under IAS 39 with expected credit losses under IFRS 9:

Group	IAS 39		Remeasurement					IFRS 9	
	Category	Amount HRK '000	Reclassifica-tion HRK '000	ECL HRK '000	Impairmentrecognized in OCI HRK '000	Other[3] HRK '000	The effect of adjusting to fair value HRK '000	Amount HRK '000	Category
Financial assets									
Cash on hand and current accounts with banks	L & R[4]	1,403,664	-	817	-	-	-	1,404,481	AC[5]
Deposits with other banks	L & R	29,138	-	202	-	-	-	29,340	AC
Loans to financial institutions	L & R	10,836,141	-	106,906	-	943	-	10,943,990	AC
Loans to other customers	L & R	12,383,623	(3,840)	(717,902)	-	135,001	(176)	11,796,706	AC
To: Financial assets at FVPL[6] ***A***		-	*(3,840)*	-	-	-	(176)	-	
Other assets	L & R	19,297	-	*(6,664)*	-	-	-	12,633	AC
Assets held to maturity	L & R	1,399	(1,399)	-	-	-	-	-	
To: Debt instruments at AC ***B***		-	*(1,399)*	-	-	-	-	-	
Debt instruments at AC		-	1,399	(2)	-	-	-	1,397	AC
	L & R	**24,673,262**	**(3,840)**	**(616,643)**	**-**	**135,944**	**(176)**	**24,188,547**	**AC**
Assets available for sale	AFS	3,321,564	(3,321,564)	-	-	-	-	-	n/a
To: Financial assets at FVOCI[7] ***C***		-	*(2,508,833)*	-	-	-	-	-	
To: Financial assets at FVPL ***D***		-	*(812,731)*	-	-	-	-	-	
	AFS	**3,321,564**	**(3,321,564)**	**-**	**-**	**-**	**-**	**-**	**n/a**
Financial assets at FVOCI	n/a	-	-	-	-	-	-	2,508,833	FVOCI
From: AFS[8] ***E***		-	*2,508,833*	-	-	-	-	-	
	n/a	**-**	**2,508,833**	**-**	**-**	**-**	**-**	**2,508,833**	**FVOCI**
Financial assets at FVPL	FVPL/n/a	291	-	-	-	-	-	291	FVPL
From: AFS ***F***		-	*812,731*	-	-	-	-	*812,731*	
From: Loans to other customers ***G*** G		-	*3,840*	-	-	-	*176*	*4,016*	
	FVPL/n/a	**291**	**816,571**	**-**	**-**	**-**	**176**	**817,038**	**FVPL**
Total assets		**27,995,117**	**-**	**(616,643)**	**-**	**135,944**	**-**	**27,514,418**	
Provision for guarantees and commitments ***H***		(64,360)	-	15,013	-	-	-	(49,347)	
Other reserves		(94,683)	28,254	-	(4,288)[9]	-	-	(70,717)	
To: Retained earnings and Reserves ***I***		-	*28,254[10]*	-	-	-	-	-	
Recognition of expected credit losses in retained earnings ***J***		-	-	*(4,288)*	-	-	-	-	
The effect of IFRS 9 on Retained Earnings and Reserves ***K***		**-**	**-**	**(605,918)**	**(4,288)**	**135,944**	**-**	**-**	

3 Others relates to interest and fees transferred from the off-balance shet records net of the transfer of loan principal to financial assets at fair value through profit or loss.

[4] L & R: Loans and receivables

[5]AC: Amortised cost

[6] FVPL: Financial assets at fair value through profit or loss

[7] FVOCI: Financial assets at fair value through other comprehensive income

[8] AFS: Assets available for sale

[9] The allowance for financial assets classified at fair value through other comprehensive income does not impact the carrying amount of financial assets in the Statement on Financial Position, but is recognised in the accounts of other comprehensive income.

[10] The effect of adjusting to fair value of financial assets that were measured under IAS 39 through other comprehensive income and reclassified under IFRS 9 as financial assets at fair value through the Statement on Profit or Loss, due to which the effect from Other reserves is stated on Retained Earnings and Reserves.

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5. Transition to IFRS 9 (continued)

Bank		**IAS 39**		**Remeasurement**					**IFRS 9**	
		Category	**Amount HRK '000**	**Reclassification HRK '000**	**ECL HRK '000**	**Impairment recognized in OCI HRK '000**	**Other[11] HRK '000**	**The effect of adjusting to fair value HRK '000**	**Amount HRK '000**	**Category**
Financial assets										
Cash on hand and current accounts with banks		L & R[12]	1,401,130	-	817	-	-	-	1,401,947	AC[13]
Deposits with other banks		L & R	29,138	-	202	-	-	-	29,340	AC
Loans to financial institutions		L & R	10,836,141	-	106,906	-	943	-	10,943,990	AC
Loans to other customers		L & R	12,383,623	(3,840)	(717,902)	-	135,001	(176)	11,796,706	AC
To: Financial assets at FVPL[14]	*A*			*(3,840)*	-	-	-	(176)	-	
Other assets		L & R	12,282	-	(6,641)	-	-	-	5,641	AC
		L & R	24,662,314	(3,840)	(616,618)	-	135,944	(176)	24,177,624	AC
Assets available for sale		AFS	3,277,194	(3,277,194)	-	-	-	-	-	n/a
To: Financial assets at FVOCI[15]	*C*		-	*(2,469,160)*	-	-	-	-	-	
To: Financial assets at FVPL	*D*		-	*(808,034)*	-	-	-	-	-	
		AFS	3,277,194	(3,277,194)	-	-	-	-	-	n/a
Financial assets at FVOCI		n/a	-	-	-		-	-	2,469,160	FVOCI
From: AFS[16]	*E*		-	*2,469,160*	-	-	-	-	-	
		n/a	-	2,469,160	-	-	-	-	2,469,160	FVOCI
Financial assets at FVPL		n/a	-	-	-	-	-	-	812,050	FVPL
From: AFS	*F*		-	*808,034*	-	-	-	-	*808,034*	
From: Loans to other customers	*G*		-	*3,840*	-	-	-	*176*	*4,016*	
		n/a	-	811,874	-	-	-	176	812,050	FVPL
Total assets			27,939,508	-	(616,618)	-	135,944	-	27,458,834	
Provision for guarantees and commitments	*H*		(64,360)	-	15,013	-	-	-	(49,347)	
Other reserves			(90,457)	28,247	-	(3,997)[17]	-		66,207	
To Retained earnings and reserves	*I*		-	*28,247[18]*	-	-	-	-	-	
Recognition of expected credit losses in retained earnings	*J*		-	-	*(3,997)*	-	-	-	-	
The effect of IFRS 9 on Retained Earnings and Reserves	*K*		-	-	(605,602)	(3,997)	135,944	-	-	

[11] Others relates to interest and fees transferred from the off-balance shet records net of the transfer of loan principal to financial assets at fair value through profit or loss

[12] L & R: Loans and receivables

[13] AC: Amortised cost

[14] FVPL: Financial assets at fair value through profit or loss

[15] FVOCI: Financial assets at fair value through other comprehensive income

[16] AFS: Assets available for sale

[17] The allowance for financial assets classified at fair value through other comprehensive income does not impact the carrying amount of financial assets in the Statement on Financial Position, but is recognised in the accounts of other comprehensive income.

[18] The effect of adjusting to fair value of financial assets that were measured under IAS 39 through other comprehensive income and reclassified under IFRS 9 as financial assets at fair value through the Statement on Profit or Loss, due to which the effect from Other reserves is stated on Retained Earnings and reserves.

5. Transition to the IFRS 9 (continued)

A Since 1 January 2018, the Group has concluded that mezzanine loans, that are complex structured products, do not meet the criteria of the SPPI test. Therefore, these loans, which previously were measured at amortised cost in accordance with IAS 39, have been reclassified to financial assets measured at fair value through profit or loss. As at 31 December 2017, net value of these loans for the Group and the Bank amounted to HRK 3,840 thousand, whereas, as at 1 January 2018, estimated fair value equaled HRK 4,016 thousand and the estimation effect of HRK 176 thousand was recorded in the retained earnings and reserves.

B As of 1 January 2018, the Group has concluded that the assets previously classified as held to maturity are managed within the business model for collecting contractual cash flows and are measured at amortised cost as well as in accordance with IAS 39. Consequently, the Group has classified these instruments as Debt Securities at Amortised Cost and, as at 1 January 2018, the value of these instruments for the Group amounts to HRK 1,397 thousand and for the Bank HRK 0 thousand.

C Since 1 January 2018, the Group has concluded that, except for a small part, as described under D, the financial instruments, which were previously classified as liquidity reserve to the portfolio of assets available for sale, have been managed under the business model of collecting contractual cash flows and selling financial assets. Therefore, the Group has classified these instruments as debt securities, i.e. as financial assets at fair value through other comprehensive income. As at 1 January 2018, the value of these instruments for the Group amounted to HRK 2,508,833 thousand and for the Bank amounted to HRK 2,469,161 thousand.
This category includes equity securities (shares of companies) that the Group has no intention to sell and which are subject to irrevocable option of subsequent measurement at fair value through other comprehensive income without recycling. As at 1 January 2018, the value of these instruments for the Group and the Bank amounted to HRK 25,462 thousand.

D Since 1 January 2018, the Group has classified part of its equity instruments in the amount of HRK 19,112 thousand as financial assets measured at fair value through profit or loss because they are measured neither at amortised cost nor at fair value through other comprehensive income. In addition, investments in investment funds (obligatorily under IFRS 9) for the Group in the amount of HRK 793,619 thousand and for the Bank HRK 788,921 thousand have been classified to these assets.
These financial assets were previously classified to assets available for sale and gains/losses from measurement at fair value of investments in investment funds were previously recognised in other comprehensive income.
At the reclassification of these assets, the cumulative gains/losses of HRK 28,254 thousand for the Group and HRK 28,247 thousand for the Bank, that were previously recognised in other comprehensive income have been reclassified from other reserves to retained earnings and reserves.

E As described under C

F As described under D

G As described under A

H Since 1 January 2018, the effect of calculating provisions pursuant to IFRS 9 for loan commitments amounts to HRK 15,013 thousand.

I As described under D

J Impairment of debt securities classified to Financial assets at fair value through other comprehensive income is calculated by recognising impairment losses in other comprehensive income without reducing the carrying amount of these financial assets in the Statement of Financial Position. As at 1 January 2018, for the Group they amounted to HRK 4,288 thousand and for the Bank HRK 3,997 thousand.

K The total effect of expected credit losses under IFRS 9 as a result of remeasurement amounts to HRK 469,974 thousand for the Group and HRK 469,658 thousand for the Bank, whereas the effect of reclassification of financial instruments, due to which cumulative gains/losses previously recognized in other comprehensive income were reclassified from equity to retained earnings and reserves, amounts to HRK 28,254 thousand for the Group and HRK 28,247 thousand for the Bank.

6. Interest income

Interest income by borrowers:

	Group				Bank			
	2018		2017		2018		2017	
	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000
Public sector	23,492	79,648	27,889	83,267	23,168	78,592	27,484	82,033
State-owned companies	7,839	24,124	15,051	41,036	7,839	24,124	15,051	41,036
Foreign companies	8,789	18,219	3,025	9,534	8,789	18,219	3,025	9,534
Domestic companies	85,427	254,710	86,206	272,668	85,427	254,710	86,206	272,668
Domestic financial institutions	48,039	158,292	61,449	187,271	48,039	158,292	61,449	187,271
Foreign financial institutions	23	430	226	399	23	430	226	399
Penalty interest	1,767	7,447	3,993	8,150	1,767	7,447	3,993	8,150
Other	6,733	20,273	11,517	58,872	6,733	20,273	11,517	58,872
	182,109	**563,143**	**209,356**	**661,197**	**181,785**	**562,087**	**208,951**	**659,963**

6. Interest income (continued)

Interest income by type of facility:

	Group				Bank			
	2018		2017		2018		2017	
	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
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Interest on loans								
- financial institutions	48,249	158,735	61,206	189,595	48,249	158,735	61,206	189,595
- other customers	125,692	378,581	138,144	440,147	125,692	378,581	138,144	440,147
	173,941	537,316	199,350	629,742	173,941	537,316	199,350	629,742
Investments in securities	8,144	25,389	9,777	31,047	7,820	24,333	9,372	29,813
- *Bonds of the Republic of Croatia*	*7,460*	*22,535*	*7,809*	*23,589*	*7,147*	*21,513*	*7,433*	*22,455*
- *Corporate bonds*	*28*	*85*	*46*	*151*	*17*	*51*	*17*	*51*
- *Treasury bills of the Ministry of Finance*	*656*	*2,769*	*1,922*	*7,307*	*656*	*2,769*	*1,922*	*7,307*
Deposits	24	438	229	408	24	438	229	408
	182,109	**563,143**	**209,356**	**661,197**	**181,785**	**562,087**	**208,951**	**659,963**

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 2018 amounts to HRK 54,366 thousand (1 January to 30 September 2017: HRK 76,607 thousand).

7. Interest expense

Interest expense by type of payee:

	Group				Bank			
	2018		2017		2018		2017	
	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000
Domestic financial institutions	1,618	2,878	614	2,083	1,618	2,878	614	2,083
Foreign financial institutions	84,080	252,113	85,694	299,378	84,080	252,113	85,694	299,378
	85,698	**254,991**	**86,308**	**301,461**	**85,698**	**254,991**	**86,308**	**301,461**

Interest expense by type of facility:

	Group				Bank			
	2018		2017		2018		2017	
	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000
Borrowings	67,873	202,261	67,813	205,106	67,873	202,261	67,813	205,106
Debt securities	17,764	52,656	17,765	95,364	17,764	52,656	17,765	95,364
Deposits from customers	61	74	730	991	61	74	730	991
	85,698	**254,991**	**86,308**	**301,461**	**85,698**	**254,991**	**86,308**	**301,461**

8. Operating expenses

Operating expenses can be shown as follows:

	Group				Bank			
	2018		2017		2018		2017	
	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000
General and administrative expenses:								
Employee expenses	24,573	69,971	22,448	68,070	23,690	67,492	21,561	65,494
Depreciation	1,486	4,806	1,786	5,742	1,473	4,771	1,771	5,697
Administration expenses	2,609	12,262	2,141	8,789	2,571	12,089	2,064	8,536
Material and services	8,426	21,313	7,028	22,233	7,801	19,959	6,551	20,802
	37,094	108,352	33,403	104,834	35,535	104,311	31,947	100,529
Other expenses:								
Recalculation expenses	11,297	13,576	276	4,671	11,297	13,576	276	4,671
Other expenses	2,000	3,953	2,471	4,674	852	1,583	941	2,096
	13,297	17,529	2,747	9,345	12,149	15,159	1,217	6,767
	50,391	**125,881**	**36,150**	**114,179**	**47,684**	**119,470**	**33,164**	**107,296**

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8. Operating expenses (continued)

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

				Group				Bank
	2018		2017		2018		2017	
	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
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Changes in claims	966	1,561	2,944	3,743	-	-	-	-
Changes in claims provisions, reinsurer's share	(474)	(728)	(1,629)	(1,894)	-	-	-	-
Expenses of insurance operations	**492**	**833**	**1,315**	**1,849**	**-**	**-**	**-**	**-**

Claims provisions consist of reported and unreported losses in equal amounts, which is a significantly different structure in terms of share of individual types of claims. The reason lies in one large reported loss to be paid in October 2018. The Bornhuetter-Ferguson method was used for the gross amount of provisions. The reinsurance share is determined in accordance with the valid terms and conditions of the reinsurance contract. Further to this, this provision decreased both in the gross amount and in the reinsurance share in comparison with the same reporting period previous year.

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9. Impairment loss and provisions

The provision for impairment gains/losses on placements may be summarised as follows:

		Group				Bank			
		2018		2017		2018		2017	
	Notes	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
		HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Impairment losses on cash on hand and due from banks	10	197	188	1,769	557	197	188	1,769	557
Impairment losses on deposits with other banks	11	(6)	(146)	(18)	(247)	(6)	(146)	(18)	(247)
Impairment losses on loans to financial institutions	12	(208)	(14,708)	(40,725)	(98,079)	(208)	(14,708)	(40,725)	(98,079)
Impairment losses on loans to other customers	13	34,574	(94,570)	83,463	201,224	34,574	(94,570)	83,463	201,224
Modification (gain)/loss – financial institutions	12	(18)	2,206	n/a	n/a	(18)	2,206	n/a	n/a
Modification (gain)/loss – other customers	13	26	(1,018)	n/a	n/a	26	(1,018)	n/a	n/a
POCI assets – impairment at initial recognition	13	19,019	43,816	n/a	n/a	19,019	43,816	n/a	n/a
Impairment losses on non-current assets held for sale	19	(10)	(60)	(15)	(27)	(10)	(60)	(15)	(27)
Impairment of financial assets at fair value through other comprehensive income	15	271	1,453	n/a	n/a	277	1,459	n/a	n/a
Impairment losses on other assets	20	4,830	16,684	61	593	4,778	16,618	7	490
Total increase/(decrease) for impairment losses on assets		58,675	(46,155)	44,535	104,021	58,629	(46,215)	44,481	103,918
Provision for guarantees and commitments	23	86,335	197,622	1,074	(7,336)	86,335	197,622	1,074	(7,336)
Other provisions	23	192	(16,986)	3,164	(4,787)	191	(16,976)	3,164	(4,713)
Total increase/(decrease) in provision for guarantees and commitments and other provisions		86,527	180,636	4,238	(12,123)	86,526	180,646	4,238	(12,049)
Total increase/(decrease) of provision		**145,202**	**134,481**	**48,773**	**91,898**	**145,155**	**134,431**	**48,719**	**91,869**

10. Cash on hand and current accounts with banks

	Group		Bank	
	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000
Account with the Croatian National Bank	618,813	1,316,520	618,813	1,316,520
Cash on hand	3	16	3	16
Foreign currency account - domestic banks	6,093	1,544	6,093	1,544
Foreign currency account - foreign banks	519,963	83,924	515,714	83,924
Domestic currency account - domestic banks	9,768	2,534	-	-
	1,154,640	1,404,538	1,140,623	1,402,004
Loss allowances	(231)	(858)	(231)	(858)
	1,154,409	**1,403,680**	**1,140,392**	**1,401,146**

The movements in the loss allowances on amounts due from banks may be summarized as follows:

	Group HRK '000	Bank HRK '000
Balance as of 1 January 2017	3,079	3,079
Increase of loss allowances on amounts due from banks	-	-
Release of loss allowances on amounts due from banks	(2,221)	(2,221)
Balance as of 31 December 2017	**858**	**858**
The effect of IFRS 9 (Note 5)	(817)	(817)
Balance as of 1 January 2018	**41**	**41**
Increase of loss allowances on amounts due from banks	562	562
Release of loss allowances on amounts due from banks	(374)	(374)
Total recognised through Statement on Profit and Loss (Note 9)	*188*	*188*
Net foreign exchange gains on loss allowances	2	2
Balance as of 30 September 2018	**231**	**231**

11. Deposits with other banks

	Group		Bank	
	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000
Deposits with foreign banks	-	-	-	-
Deposits with domestic banks	-	29,468	-	29,468
Accrued interest	-	24	-	24
	-	**29,492**	**-**	**29,492**
Loss allowances	-	(354)	-	(354)
	-	**29,138**	**-**	**29,138**

The movements in the loss allowances on deposits with other banks may be summarized as follows:

	Group HRK '000	Bank HRK '000
Balance as of 1 January 2017	248	248
Increase of loss allowances on deposits with other banks	106	106
Balance as of 31 December 2017	**354**	**354**
The effect of IFRS 9 (Note 5)	(202)	(202)
Balance as of 1 January 2018	**152**	**152**
Increase of loss allowances on deposits with other banks	36	36
Release of loss allowances on deposits with other banks	(182)	(182)
Total recognised through Statement on Profit and Loss (Note 9)	*(146)*	*(146)*
Net foreign exchange losses on loss allowances	(6)	(6)
Balance as of 30 September 2018	**-**	**-**

Net foreign exchange gains on loss allowances are shown within net gains/ (losses) from financial activities in the Statement on Profit and Loss.

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12. Loans to financial institutions

	Group		Bank	
	Sep 30, 2018	Dec 31, 2017	Sep 30, 2018	Dec 31, 2017
	HRK '000	HRK '000	HRK '000	HRK '000
Long-term loans under loan programs	9,893,772	10,868,288	9,893,772	10,868,288
Short-term loans and reverse repo transactions	319,931	236,400	319,931	236,400
Accrued interest	23,620	27,672	23,620	27,672
Deferred recognition of loan origination fees	(44,309)	(58,293)	(44,309)	(58,293)
Recognition of modification loss	(2,206)	-	(2,206)	-
	10,190,808	11,074,067	10,190,808	11,074,067
Loss allowances	(115,599)	(237,926)	(115,599)	(237,926)
	10,075,209	**10,836,141**	**10,075,209**	**10,836,141**

The movements in the loss allowances on loans to financial institutions may be summarized as follows:

	Group	Bank
	HRK '000	HRK '000
Balance as of 1 January 2017	363,317	363,317
Increase of loss allowances on loans to financial institutions	7,949	7,949
Release of loss allowances on loans to financial institutions	(131,795)	(131,795)
Net foreign exchange losses on loss allowances	(1,438)	(1,438)
Acquisition of immovable property	(1,105)	(1,105)
Loss allowances transferred from loans to other customers	998	998
Balance as of 31 December 2017	**237,926**	**237,926**
The effect of IFRS 9 (Note 5)	(106,906)	(106,906)
Balance as of 1 January 2018	**131,020**	**131,020**
Increase of loss allowances on loans to financial institutions	28,084	28,084
Release of loss allowances on loans to financial institutions	(42,792)	(42,792)
Total recognised through Statement on Profit and Loss (Note 9)	*(14,708)*	*(14,708)*
Net foreign exchange losses on loss allowances	(909)	(909)
Loss allowances transferred to loans to other customers	(20)	(20)
Unwinding – changes due to the lapse of time	216	216
Balance as of 30 September 2018	**115,599**	**115,599**

Net foreign exchange losses on loss allowances are shown within net gains/(losses) from financial activities in the Statement on Profit and Loss.

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12. Loans to financial institutions (continued)

Loans to financial institutions, impaired for loss allowances, by purpose of the loan programs:

		Group		Bank
	Sep 30, 2018	Dec 31, 2017	Sep 30, 2018	Dec 31, 2017
	HRK '000	HRK '000	HRK '000	HRK '000
Loan programme for reconstruction and development of the economy	1,959,233	2,218,744	1,959,233	2,218,744
Export financing	2,642,209	2,935,166	2,642,209	2,935,166
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	1,144,750	1,584,242	1,144,750	1,584,242
Loan programme for small and medium-sized enterprises	4,139,918	4,121,412	4,139,918	4,121,412
Loan programme for war-torn and demolished housing and business facilities	7,662	8,724	7,662	8,724
Other	319,931	236,400	319,931	236,400
Accrued interest	23,620	27,672	23,620	27,672
Deferred recognition of loan fees	(44,309)	(58,293)	(44,309)	(58,293)
Recognition of modification loss	(2,206)	-	(2,206)	-
	11,190,808	11,074,067	10,190,808	11,074,067
Loss allowances	(115,599)	(237,926)	(115,599)	(237,926)
	10,075,209	**10,836,141**	**10,075,209**	**10,836,141**

Average interest rates for total loans to financial institutions, at year level, are stated at 0.77% (1 January to 30 September 2017: 0.91%) and for loans under HBOR loan programmes excluding the liquidity reserve at 0.77% (1 January to 30 September 2017: 0.91%).

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 69,931 thousand (31 December 2017: HRK 236,400 thousand). The above placements are collateralised by securities in the amount of HRK 73,707 thousand (31 December 2017: HRK 249,727 thousand).

13. Loans to other customers

	Group		Bank	
	Sep 30, 2018	Dec 31, 2017	Sep 30, 2018	Dec 31, 2017
	HRK '000	HRK '000	HRK '000	HRK '000
Domestic companies	11,255,958	11,294,141	11,255,958	11,294,141
State-owned companies	1,034,376	1,260,227	1,034,376	1,260,227
Public sector	1,773,262	1,744,426	1,773,262	1,744,426
Foreign companies	796,371	316,005	796,371	316,005
Non-profit institutions	5,902	3,407	5,902	3,407
Other	601,359	653,179	601,359	653,179
Accrued interest	301,773	101,042	301,773	101,042
Deferred recognition of loan origination fees	(97,808)	(113,501)	(97,808)	(113,501)
Recognition of modification gain	1,018	-	1,018	-
	15,672,211	15,258,926	15,672,211	15,258,926
Loss allowances	(3,526,207)	(2,875,303)	(3,526,207)	(2,875,303)
	12,146,004	**12,383,623**	**12,146,004**	**12,383,623**

The movements in the loss allowances on loans to other customers may be summarized as follows:

	Group	Bank
	HRK '000	HRK '000
Balance as of 1 January 2017	2,579,501	2,579,501
Increase of loss allowances on loans to other customers and interest	553,952	553,952
Release of loss allowances on loans to other customers and interest	(213,979)	(213,979)
Net foreign exchange losses on loss allowances	(3,643)	(3,643)
Collection of off-balance sheet receivables	(2,085)	(2,085)
Loss allowances transferred from off-balance sheet	2,085	2,085
Acquisition of immovable property	(284)	(284)
Write-offs	(7,610)	(7,610)
Sale of receivables	(31,636)	(31,636)
Loss allowances transferred to loans to financial institutions	(998)	(998)
Balance as of 31 December 2017	**2,875,303**	**2,875,303**
The effect of IFRS 9 (Note 5)	717,902	717,902
Balance as of 1 January 2018	**3,593,205**	**3,593,205**
Increase of loss allowances on loans to other customers and interest	787,440	787,440
Release of loss allowances on loans to other customers and interest	(881,931)	(881,931)
Collection of off-balance sheet receivables	(79)	(79)
Total recognised through Statement on Profit and Loss (Note 9)	*(94,570)*	*(94,570)*
Net foreign exchange losses on loss allowances	(15,178)	(15,178)
Loss allowances transferred from off-balance sheet	79	79
Write-offs	(1,391)	(1,391)
Loss allowances transferred from loans to financial institutions	20	20
Unwinding – changes due to the lapse of time	44,617	44,617
Acquisition of immovable property	(990)	(990)
Interest transferred from the off-balance sheet records	415	415
Balance as of 30 September 2018	**3,526,207**	**3,526,207**

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13. Loans to other customers (continued)

Net foreign exchange losses on loss allowances are shown within net gains/(losses) from financial activities in the Statement on Profit and Loss.

The total effect of loss allowances for POCI assets amounts to HRK 44,840 thousand, and relates to loss allowances at initial recognition of HRK 43,816 thousand (Note 9. Impairment loss and provisions) and foreign exchange gains/losses on this basis in the amount of HRK 1,024 thousand.

Loans to other customers, net of loss allowances, may be summarized by loan programme as follows:

		Group		**Bank**
	Sep 30, 2018 HRK '000	**Dec 31, 2017 HRK '000**	**Sep 30, 2018 HRK '000**	**Dec 31, 2017 HRK '000**
Loan programme for reconstruction and development of the economy	4,169,929	4,546,833	4,169,929	4,546,833
Export financing	5,546,252	5,274,935	5,546,252	5,274,935
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	3,463,816	3,392,439	3,463,816	3,392,439
Loan programme for small and medium-sized enterprises	1,925,586	2,010,315	1,925,586	2,010,315
Other	361,646	46,863	361,646	46,863
Accrued interest	301,773	101,042	301,773	101,042
Deferred recognition of loan origination fees	(97,808)	(113,501)	(97,808)	(113,501)
Recognition of modification gain	1,018	-	1,018	-
	15,672,211	15,258,926	15,672,211	15,258,926
Loss allowances	(3,526,207)	(2,875,303)	(3,526,207)	(2,875,303)
	12,146,004	**12,383,623**	**12,146,004**	**12,383,623**

Average interest rates for total loans to other customers, at year level, are stated at 1.83% (1 January to 30 September 2017: 2.11%).

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

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14. Financial assets at fair value through profit or loss

	Group		Bank	
	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000
Loans:				
Mezzanine loans	2,466	n/a	2,466	n/a
	2,466	**n/a**	**2,466**	**n/a**
Investments in investment funds:				
Investments in investment funds	640,402	291	633,953	-
	640,402	**291**	**633,953**	**-**
Listed equity instruments:				
Investments in corporate shares	-	n/a	-	n/a
	-	**n/a**	**-**	**n/a**
Unlisted equity instruments:				
Investments in corporate shares	-	n/a	-	n/a
Investments in financial institutions' shares	161	n/a	161	n/a
	161	**n/a**	**161**	**n/a**
	643,029	**291**	**636,580**	**n/a**

On 7 September 2018, the Management Board accepted the Bid for takeover of the company Brodogradilište Vikor Lenac d.d., Rijeka and offered price from the Bid was accepted in the amount of HRK 9.26 per share for the package of 1,367,268 shares of the Company owned by HBOR, in the nominal amount of HRK 10.00 per share. The shares were acquired under the restructuring measures of this company in exchange for a part of placement.
On 24 September 2018, payment was received in respect of the sales of the mentioned shares in the amount of HRK 12,661 thousand.

Shares of companies that are not listed relate to the shares of the company Vinka d.d. for the production of agricultural products acquired through company restructuring measures in replacement of a portion of placements. The percentage of HBOR's share in the equity of the company Vinka d.d., Vinkovci representing a 0.9365%. The shares of the company Vinka d.d., Vinkovci (LPVC-R-B) are not listed and the fair value is estimated to be HRK 0 thousand (31 December 2017: HRK 0 thousand; shares classified as assets available for sale).

The shares of financial institutions that are not listed relate to the shares of Tržište novca i kratkoročnih vrijednosnica d.d. (Money Market and Short-Term Securities) and are stated in the amount of HRK 161 thousand (31 December 2017: HRK 161 thousand; classified as Assets Available for Sale).

15. Financial assets at fair value through other comprehensive income

		Group		Bank
	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000
Listed debt instruments:				
Bonds of the Republic of Croatia	1,128,380	n/a	1,095,066	n/a
Corporate bonds	770	n/a	-	n/a
Treasury bills of the Ministry of Finance	1,814,961	n/a	1,814,961	n/a
Accrued interest	8,533	n/a	8,227	n/a
	2,952,644	**n/a**	**2,918,254**	**n/a**
Unlisted debt instruments:				
Corporate bonds	532	n/a	532	n/a
Accrued interest	216	n/a	216	n/a
	748	**n/a**	**748**	**n/a**
Unlisted equity instruments:				
Investments in shares of foreign legal entities	38	n/a	38	n/a
Shares of foreign financial institutions – EIF	25,693	n/a	25,693	n/a
	25,731	**n/a**	**25,731**	**n/a**
	2,979,123	**n/a**	**2,944,733**	**n/a**

Changes in the loss allowances of financial assets at fair value through other comprehensive income, do not impair the carrying value of financial assets, may be summarized as follows:

		Group		Bank
	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000
Balance as of 1 January 2018 – The effect of IFRS 9 (Note 5)	**4,288**	**n/a**	**3,997**	**n/a**
Increase of loss allowances	4,021	n/a	4,021	n/a
Release of loss allowances	(2,568)	n/a	(2,562)	n/a
Total recognised through Statement on Profit and Loss (Note 9)	*1,453*	n/a	*1,459*	n/a
Net foreign exchange losses on loss allowances	(18)	n/a	(18)	n/a
Balance as of 30 September 2018	**5,723**	**n/a**	**5,438**	**n/a**

Net foreign exchange losses on loss allowances are shown within net gains/ (losses) from financial activities in the Statement on Profit and Loss.

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15. Financial assets at fair value through other comprehensive income (continued)

The following text contains investment breakdown:

	Date of issue	Date of maturity	Interest rate (%)	Group Sep 30, 2018 HRK '000	Group Dec 31, 2017 HRK '000	Bank Sep 30, 2018 HRK '000	Bank Dec 31, 2017 HRK '000
Listed debt instruments:							
Bonds of the Republic of Croatia indexed to foreign currency:							
RHMF-O-19BA	29.11.2004.	29.11.2019.	5.375	45,487	n/a	44,541	n/a
RHMF-O-227E	22.7.2011.	22.7.2022.	6.5	172,141	n/a	172,141	n/a
RHMF-O-247E	10.7.2013.	10.7.2024.	5.75	18,199	n/a	12,806	n/a
RHMF-O-203E	5.3.2010.	5.3.2020.	6.5	816	n/a	-	n/a
Bonds of the Republic of Croatia in foreign currency:							
XS1117298916	11.3.2015.	11.3.2025.	3.0	56,152	n/a	56,152	n/a
Bonds of the Republic of Croatia in HRK:							
RHMF-O-203A	5.3.2010.	5.3.2020.	6.75	35,636	n/a	32,789	n/a
RHMF-O-257A	9.7.2015.	9.7.2025.	4.5	9,853	n/a	-	n/a
RHMF-O-26CA	14.12.2015.	14.12.2026.	4.25	44,507	n/a	35,183	n/a
RHMF-O-217A	8.7.2016.	8.7.2021.	2.75	229,907	n/a	227,782	n/a
RHMF-O-222A	7.2.2017.	7.2.2022.	2.25	73,237	n/a	73,237	n/a
RHMF-O-282A	7.2.2017.	7.2.2028.	2.875	12,599	n/a	10,589	n/a
RHMF-O-023BA	27.11.2017.	27.11.2023.	1.75	429,846	n/a	429,846	n/a
Corporate bonds in HRK:							
JDGL-O-20CA	21.12.2015.	21.12.2020.	5.81	770	n/a	-	n/a
Treasury bills in HRK up to 364 days			0.214 - 0.387	1,518,098	n/a	1,518,098	n/a
Treasury bills in foreign currency up to 455 days			0.093	296,863	n/a	296,863	n/a
Accrued interest				8,533	n/a	8,227	n/a
				2,952,644	**n/a**	**2,918,254**	**n/a**
Unlisted debt instruments:							
Corporate bonds indexed to foreign currency:							
LNGU-O-31AE	24.7.2015.	15.10.2031.	4.5	532	n/a	532	n/a
Accrued interest				216	n/a	216	n/a
				748	**n/a**	**748**	**n/a**
Equity instruments:							
Unlisted equity instruments:							
Investments in shares of foreign legal entities in foreign currency - SWIFT				38	n/a	38	n/a
Investments in shares of foreign financial institutions in foreign currency - EIF				25,693	n/a	25,693	n/a
				25,731	**n/a**	**25,731**	**n/a**
				2,979,123	**n/a**	**2,944,733**	**n/a**

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16. Debt instruments at amortised cost

	Group		Bank	
	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000
Debt instruments:				
Listed debt instruments:				
Bonds of the Republic of Croatia	1,357	n/a	-	n/a
Accrued interest	18	n/a	-	n/a
	1,375	n/a	-	n/a
Loss allowances	(2)	n/a	-	n/a
	1,373	**n/a**	**-**	**n/a**

The movements in the loss allowances on debt instruments at amortised cost may be summarized as follows:

	Group		Bank	
	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000
Balance as of 1 January 2018 – The effect of IFRS 9 (note 5)	**2**	**n/a**	**-**	**n/a**
Increase of loss allowances	-	n/a	-	n/a
Release of loss allowances	-	n/a	-	n/a
Total recognised through Statement on Profit and Loss (note 9)	-	n/a	-	n/a
Net foreign exchange	-	n/a	-	n/a
Balance as of 30 September 2018	**2**	**n/a**	**-**	**n/a**

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-203E) issued with foreign currency clause on 5 March 2010 are repayable over 10 years with an interest rate of 6.5%. As of 30 September 2018, the value of these outstanding bonds amounted to HRK 456 thousand (31 December 2017: HRK 467 thousand; classified as Assets held to maturity).

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-19BA) issued with foreign currency clause on 29 November 2004 are repayable over 15 years with an interest rate of 5.375%. As of 30 September 2018, the value of these outstanding bonds amounted to HRK 901 thousand (31 December 2017: HRK 918 thousand; classified as Assets held to maturity).

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17. Assets available for sale

Below we give an overview of investments in financial instruments as at 31 December 2017, pursuant to IAS 39 that have been reclassified to Financial assets at fair value through other comprehensive income and Financial assets at fair value through profit and loss according to IFRS 9:

		Group		Bank
	Sep 30, HRK '000	Dec 31, 2017 HRK '000	Sep 30, 2018 HRK '000	Dec 31,2017 HRK '000
Debt instruments:				
Listed debt instruments:				
Bonds of the Republic of Croatia	n/a	884,763	n/a	846,428
Financial institutions' bonds	n/a	-	n/a	-
Corporate bonds	n/a	770	n/a	-
Treasury bills of the Ministry of Finance	n/a	1,583,313	n/a	1,583,313
Accrued interest	n/a	13,836	n/a	13,269
	n/a	**2,482,682**	**n/a**	**2,443,010**
Unlisted debt instruments:				
Corporate bonds	n/a	522	n/a	522
Accrued interest	n/a	167	n/a	167
	n/a	**689**	**n/a**	**689**
Equity instruments:				
Listed equity instruments:				
Investments in companies' shares	n/a	18,951	n/a	18,951
	n/a	**18,951**	**n/a**	**18,951**
Unlisted equity instruments:				
Investments in shares of foreign legal entities	n/a	35	n/a	35
Investments in financial institutions' shares	n/a	161	n/a	161
Shares of foreign financial institutions – EIF	n/a	25,427	n/a	25,427
Investments in companies' shares	n/a	16,725	n/a	16,725
Impairment losses	n/a	(16,725)	n/a	(16,725)
	n/a	**25,623**	**n/a**	**25,623**
Investments in investment funds:				
Shares classified as assets available for sale	n/a	793,619	n/a	788,921
	n/a	**793,619**	**n/a**	**788,921**
Balance as at 31 December 2017	**n/a**	**3,321,564**	**n/a**	**3,277,194**

18. Assets held to maturity

		Group		Bank
	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000
Debt instruments:				
Listed debt instruments:				
Bonds of the Republic of Croatia	n/a	1,385	n/a	-
Accrued interest	n/a	14	n/a	-
Balance as at 30 September 2018	**n/a**	**1,399**	**n/a**	**-**

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19. Non-current assets held for sale

	Group		Bank	
	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000
Non-current assets held for sale	57,969	48,225	57,969	48,225
Impairment losses	(32,935)	(31,528)	(32,935)	(31,528)
	25,034	**16,697**	**25,034**	**16,697**

In the reporting period 2018, reposession of property took place with current value in the amount of HRK 8,277 thousand, acquisition value of HRK 9,744 thousand and provisions of HRK 1,467 thousand, and relates to land plot in the amount of HRK 2,294 thousand, apartments in the amount of HRK 31 thousand and buildings in the amount of HRK 5,952 thousand (in 2017, reposession of property took place with current value of HRK 154 thousand, acquisition value of HRK 1,827 thousand and provisions of HRK 1,673 thousand, and relates to land plot).

In the period 1 January – 30 September 2018, there was no sale of the above assets (in 2017, a sale of non-current assets held for sale took place with current value in the amount of HRK 317 thousand, acquisition cost of HRK 1.333 thousand and provisions of HRK 1.016 thousand, and relates to land plot in the amount of HRK 27 thousand, buildings in the amount of HRK 26 thousand and dwellings in the amount of HRK 264 thousand).

In 2017, this property was transferred to long-term lease and reclassified to apartments on the item Investments in property in the amount of HRK 1,807 thousand, which is presented under Other assets due to immaterial significance. In the reporting period, this property was depreciated in the amount of HRK 48 thousand (in 2017 in the amount of HRK 64 thousand).

The fair value of non-current assets held for sale at the beginning of the reporting period amounted to HRK 27,773 thousand and the end of the reporting period at HRK 24,846 thousand.

The movements in impairment losses on non-current assets held for sale may be summarized as follows:

	Group		Bank	
	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000
Balance as of 1 January	**31,528**	**30,409**	**31,528**	**30,409**
Increase of impairment losses on non-current assets held for sale	-	711	-	711
Decrease of impairment losses on non-current assets held for sale	(60)	(185)	(60)	(185)
Total recognized through Statement on Profit and Loss (Note 9)	*(60)*	*526*	*(60)*	*526*
Derecognition of impairment resulting from the sale of fixed assets intended for sale	-	(1,014)	-	(1,014)
Impairment losses at takeover	1,467	1,607	1.467	1,607
Acquisition of immovable property	-	-	-	-
Balance as of 30 September 2018	**32,935**	**31,528**	**32,935**	**31,528**

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20. Other assets

	Group		Bank	
	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000
Fees receivable	25,063	9,363	25,063	9,363
Other receivables	9,547	9,511	9,411	9,365
Prepaid expenses	2,541	2,146	2,541	2,146
Accrued income	4,749	6,113	4,749	6,113
Premium receivables	1,062	6,318	-	-
Receivables for reinsurance commissions	481	583	-	-
Receivables for risk assessment fees	193	259	-	-
Deferred tax assets	314	231	-	-
Other assets	1,552	1,684	1,552	1,685
	45,502	36,208	43,316	28,672
Loss allowances	(29,890)	(6,737)	(29,688)	(6,446)
Balance as of 30 September 2018, net of loss allowances	**15,612**	**29,471**	**13,628**	**22,226**

The following text contains the breakdown of positions stated as credit risk:

	Group		Bank	
	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000
Fees receivable	25,063	9,363	25,063	9,363
Other receivables	9,547	9,511	9,411	9,365
Premium receivables	1,062	6,318	-	-
Receivables for reinsurance commissions	481	583	-	-
Receivables for risk assessment fees	193	259	-	-
Loss allowances	(29,890)	(6,737)	(29,688)	(6,446)
Subtotal – credit risk	**6,456**	**19,297**	**4,786**	**12,282**

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20. Other assets (continued)

The movements in the loss allowances on other assets may be summarized as follows:

	Group HRK 000	Bank HRK 000
Balance as at 1 January 2017	**4,541**	**4,537**
Increase of loss allowances on other assets	2,756	2,399
Release of loss allowances on other assets	(559)	(489)
Collection of off-balance sheet receivable items	(2)	(2)
Loss allowances transferred from off-balance sheet	2	2
Write-offs	(1)	(1)
Balance as of 31 December 2017	**6,737**	**6,446**
The effect of IFRS 9 (Note 5)	6,664	6,641
Other adjustments	(178)	-
Balance as of 1 January 2018	**13,223**	**13,087**
Increase of loss allowances on other assets	22,382	22,230
Release of loss allowances on other assets	(5,689)	(5,612)
Collection of off-balance sheet receivable items	(9)	-
Total recognised through Statement on Profit and Loss (Note 9)	*16,684*	*16,618*
Write-offs	(10)	(10)
Acquisition of immovable property	(14)	(14)
Net foreign exchange	7	7
Balance as of 30 September 2018	**29,890**	**29,688**

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21. Borrowings

	Group		Bank	
	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000
Balance as of 1 January	15,399,788	13,378,057	15,399,788	13,378,057
New borrowings	1,726,627	3,849,787	1,726,627	3,849,787
Repayments	(1,890,555)	(1,729,575)	(1,890,555)	(1,729,575)
Net foreign exchange gains	(158,537)	(98,481)	(158,537)	(98,481)
	15,077,323	15,399,788	15,077,323	15,399,788
Accrued interest	73,561	63,737	73,561	63,737
Deferred fees	(69,305)	(75,644)	(69,305)	(75,644)
	15,081,579	**15,387,881**	**15,081,579**	**15,387,881**

The bank is subject to various financial clauses from the Contract, as of 30 September 2018 the Bank was in compliance with all required financial clauses from the Contract.

22. Debt securities issued

The carying value of bonds includes interest.

Group and Bank	Effective interest rate	Fair value Sep 30, 2018 HRK '000	Net book value Sep 30, 2018 HRK '000	Fair value Dec 31, 2017 HRK '000	Net book value Dec 31, 2017 HRK '000
Bonds EUR 150 million	6.37	1,215,575	1,107,448	1,255,316	1,118,122
Accrued interest		-	26,543	-	43,909
Deferred fees		-	(239)	-	(332)
		1,215,575	**1,133,752**	**1,255,316**	**1,161,699**

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).

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23. Other liabilities

	Group		Bank	
	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000
Deferred recognition of interest income	255,031	314,271	255,031	314,271
Liabilities in respect of subsidized interest	108,805	107,262	108,805	107,262
Provisions for guarantees and commitments	248,423	64,360	248,423	64,360
Provisions for other liabilities	59,994	76,980	59,747	76,723
Accrued salaries	7,230	6,997	7,043	6,660
Liabilities to suppliers	463	1,393	368	1,261
Liabilities for prepaid receivables	3,457	2,759	3,457	2,759
Deferrable premium	2,832	2,925	-	-
Provisions for claims	6,085	5,235	-	-
Provisions for return premiums	690	642	-	-
Liabilities to re-insurers	2,287	1,165	-	-
Deferred tax liabilities	1,011	889	-	-
Other liabilities	7,114	20,575	6,140	19,355
	703,422	**605,453**	**689,014**	**592,651**

Liabilities in respect of subsidized interest represent advances taken in respect of interest subsidies on loans, which are provided for final customers at a lower interest rate in accordance with the following programmes implemented by HBOR for and on behalf of the Republic of Croatia. These liabilities include:

- HRK 108,508 thousand in respect of the Programme of Preferential Financing through HBOR's Loan Programmes (31 December 2017: HRK 107,262 thousand),

- HRK 251 thousand in respect of the Financing Model for the Reconstruction and Modernisation of the Fishing Fleet – the Ministry of Agriculture – interest subsidy (31 December 2017: HRK 0 thousand),

- HRK 45 thousand in respect of the Environmental Protection, Energy Efficiency and Renewable Energy Resources Programme – the Environmental Protection and Energy Efficiency Fund – interest rate subsidy (31 December 2017: HRK 0 thousand),

- HRK 1 thousand in respect of the Female Entrepreneurship Programme - Ministry of the Economy, Entrepreneurship and Crafts – interest rate subsidy (31 December 2017: HRK 0 thousand).

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23. Other liabilities (continued)

Movements in the provision for guarantees, commitments and other liabilities may be summarized as follows:

	Group HRK '000	Bank HRK '000
Balance as at 1 January 2017	**75,103**	**75,103**
Increase in provision for guarantees and commitments	11,523	11,523
Release in provision for guarantees and commitments	(21,878)	(21,878)
Net foreign exchange losses on provision for impairment losses	(388)	(388)
Balance as of 31 December 2017 - Provision for guarantees and commitments	**64,360**	**64,360**
The effect of IFRS 9 (Note 5)	(15,013)	(15,013)
Balance as at 1 January 2018	**49,347**	**49,347**
Increase in provision for guarantees and commitments	301,570	301,570
Release in provision for guarantees and commitments	(103,948)	(103,948)
Total recognised through Statement on Profit and Loss (Note 9)	*197,622*	*197,622*
Net foreign exchange gains on provision for impairment losses	1,454	1,454
Balance as at 30 September 2018 – Provision for guarantees and commitments	**248,423**	**248,423**
Balance as at 1 January 2018 – Provision for other liabilities	**76,980**	**76,723**
Increase in provision for other liabilities	9,607	9,607
Release in provision for other liabilities	(26,593)	(26,583)
Total reconised through Statement on Profit and Loss (Note 9)	*(16,986)*	*(16,976)*
Balance as at 30 September 2018 – Provision for other liabilities	**59,994**	**59,747**

Net foreign exchange gains on loss allowances are shown within net gains/ (losses) from financial activities in the Statement on Profit and Loss.

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24. Guarantees and commitments

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

Group and Bank

	Sep 30, 2018	Dec 31, 2017
	HRK '000	HRK '000
Guarantees issued in HRK	17,883	34,338
Guarantees issued in foreign currency	1,131,225	2,475,971
Open letters of credit in foreign currency	13,160	-
Undrawn loans	3,916,628	3,021,163
EIF – subscribed, not called up capital	47,514	48,087
Other irrevocable contingent liabilities	93	339
	5,126,503	5,579,898
Provisions for guarantees and commitments	(248,423)	(64,360)
	4,878,080	**5,515,538**

Guarantees and open letters of credit

Issued guarantees and open letters of credit represent the liability of the Bank to make payments on behalf of customers if the customer is unable to honor 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. However, since all the stated guarantees issued are non-financial guarantees, i.e. they are performance related guarantees, they are not measured in accordance with IFRS 9 but in accordance with the IAS 37 provisions, Contingent Liabilities and Contingent Assets.

Bank guarantees are, to the extent of 80%, 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.

In the reporting period, the contingent liability was reduced due to the completion of bankruptcy proceedings during which recourse payment was not collected.

25. 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.

Assets and liabilities as of 30 September 2018 and 31 December 2017, and income and expense for the period 1 January to 30 September 2018 and for the period 1 January to 30 September 2017 arising from transactions with related parties, including the Bank's key management personnel, include the following:

a) Related-party transactions

Group	**Assets**	**Liabilities**	**Assets**	**Liabilities**
	Sep 30, 2018	**Sep 30, 2018**	**Dec 31, 2017**	**Dec 31, 2017**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Owner	3,501,246	217,485	3,059,698	185,536
Government funds, executive authorities and agencies	1,149,166	54,153	1,076,606	30,358
State-owned companies	1,142,031	-	1,354,828	1
Associates	44	-	1	-
Key management personnel	4,418	709	5,073	587
Total	**5,796,905**	**272,347**	**5,496,206**	**216,482**

Group	**Income**	**Expense**	**Income**	**Expense**
	Jan 1 – Sep 30 2018	**Jan 1 – Sep 30 2018**	**Jan 1 – Sep 30 2017**	**Jan 1 – Sep 2017**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Owner	42,314	5,330	61,481	496
Government funds, executive authorities and agencies	142,217	780	22,864	612
State-owned companies	45,801	15,438	47,676	3,765
Associates	10	3	3,814	-
Key management personnel	110	7,297	95	6,130
Total	**230,452**	**28,848**	**135,930**	**11,003**

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25. Related-party transactions (continued)

a) Related-party transactions (continued)

Bank	Assets Sep 30, 2018 HRK '000	Liabilities Sep 30, 2018 HRK '000	Assets Dec 31, 2017 HRK '000	Liabilities Dec 31, 2017 HRK '000
Owner	3,501,246	217,485	3,059,698	185,536
Government funds, executive authorities and agencies	1,108,758	53,899	1,032,525	30,199
State-owned companies	1,142,032	-	1,354,442	-
Subsidiary companies	36,124	-	36,124	-
Associates	44	-	1	-
Key management personnel	4,241	607	4,844	552
Total	**5,792,445**	**271,991**	**5,487,634**	**216,287**

Bank	Income Jan 1 – Sep 30 2018 HRK '000	Expense Jan 1 – Sep 30 2018 HRK '000	Income Jan 1 – Sep 30 2017 HRK '000	Expense Jan 1 – Sep 2017 HRK '000
Owner	42,314	5,330	61,481	496
Government funds, executive authorities and agencies	141,142	263	21,548	36
State-owned companies	45,801	15,367	47,657	3,701
Subsidiary companies	-	-	-	-
Associates	10	3	3,814	-
Key management personnel	103	6,521	89	5,584
Total	**229,370**	**27,484**	**134,589**	**9,817**

Assets include loans to other customers, debt instruments at amortised cost, financial assets at fair value through other comprehensive income, other assets and off-balance sheet exposure relating to commitments.

Liabilities include liabilities for deposits, key management salaries and other liabilities.

Income includes interest income, fee income and reversal of impairment losses and provisions.
Expenses include expenses for key management salaries, impairment loss and provisions.

25. Related-party transactions (continued)

b) Collateral received

		Group		Bank
	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000
The Republic of Croatia	4,198,137	4,235,919	4,110,287	4,138,695
State agencies	505,515	573,727	505,515	573,727
Total	**4,703,652**	**4,809,646**	**4,615,802**	**4,712,422**

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 6,971 thousand (1 January to 30 September 2017: HRK 5,873 thousand), and for the Bank amounted to HRK 6,311 thousand (1 January to 30 September 2017: HRK 5,471 thousand).

Remuneration for the work of the members of the Supervisory Board for the Group amounted to HRK 206 thousand (1 January to 30 September 2017: HRK 257 thousand) and for the Bank amounted to HRK 90 thousand (1 January to 30 September 2017: HRK 113 thousand).

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26. Risk management

Based on the Act on the Croatian Bank for Reconstruction and Development, the Group is obliged to mitigate business risks directed by the principles of banking operations.

In the process of risk management, the Group identifies, estimates, measures, monitors, contains and controls the risks to which it is or might be exposed in the course of business and reports about them to the relevant authorities. By the mentioned procedures, appropriate internal documents and adequate organisational structure, a comprehensive and complete risk management system is provided.

The most significant risks the Group is exposed are credit risk, liquidity risk, interest rate risk in the Bank's book, foreign exchange risk, operational risk and outsourcing risk. These risks are managed daily in accordance with the policies, ordinances, procedures, methodologies and limit systems as well as decisions/conclusions of the Supervisory Board, the Management Board and the risk management committees.

The Group implements the sensitivity analyses and scenario analyses, provided that one or several risk factors are changed in regular or stressful circumstances, and the systems of pro-active risk management are continuously developed for the purpose of reducing possible future risks.

26.1. Overview of the most important risks

Credit risk

The Group controls credit risk through credit policies, ordinances and prescribed procedures that determine the internal control systems with an objective 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.

Liquidity risk, currency risk and interest rate risk in the Bank's book

The Group ensures quality management of liquidity, currency and interest rate risks in the banking book through the Asset and Liability Management Committee. The management of these risks implies a reduction of interest rate risk, currency risk and liquidity risk to the lowest possible level. The majority of the Group's organisational units are included, directly and indirectly, in the operations of the Asset and Liability Management Committee in order to ensure a high-quality, integrated and comprehensive system for the management of these risks.

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 Group has established a system of limits, it monitors and controls limit utilisation, maintains the adequate level of liquidity reserve, continuously monitors current and planned liquidity, ensures HRK and foreign currency funds necessary for timely settlement of liabilities and for disbursements of approved loans and planned loan approvals. In terms of liquidity risk management, the Group monitors and strives to achieve compatibility of contracted and planned placements with the respective sources according to maturity. The Group does not hold deposits of citizens and is therefore not exposed to wide daily fluctuations in liquidity.

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26. Risk management (continued)

26.1. Overview of the most important risks (continued)

Liquidity risk (continued)

The Group monitors liquidity risk by implementing the sensitivity analyses and scenario analyses in regular or stressful business conditions. Early warning signals and procedures for liquidity crisis indication or occurrence are determined by the Ordinance on Liquidity Risk Management.

Interest rate risk in the Bank's book

The basic principles for managing the Group'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 Group 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 Group to the changes in interest rates. Interest rates are structured per currency, type and value and projections of average weighted interest rates for Group's funds and placements are made. Furthermore, in addition to harmonising interest rates on sources and placements, current market conditions and movements in forecasted market indicators are also monitored.

Currency risk

The basic principles for managing HBOR's currency risk are determined in the internal acts 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 Group 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 Group 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.

Operational risk

The Group 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.

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.

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26. Risk management (continued)

26.1. Overview of the most important risks (continued)

Outsourcing risk

The Group manages the outsourcing risk on the basis of internal documents that are in compliance with the regulations prescribed by the Croatian National Bank applicable to the Group as a special financial institution. The internal documents that determine the management of this risk determine also the procedures for the outsourcing of activities, the rules for the management of relations with the service providers and the obligation to reduce the risk to the lowest level.

The 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 annual basis.

26.2. Strategy and risk management systems

The Supervisory Board is responsible for monitoring the appropriateness and effectiveness of the risk management process in the Group. The Supervisory Board adopts HBOR's Risk Management Strategy that lays out the main principles and standards of risk management and defines the tendency towards risk-taking.

The Management Board of the Bank is responsible for implementing the risk management strategy 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.

Risk management 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 Liquidity Risk Management Ordinance, the Currency Risk Management Procedures and the Interest Rate Risk Management Procedures, the Assets and Liabilities Management Policies as well as other documents of the Bank that regulate this area,

- **Credit Risk Evaluation and Measurement Committee –** manages credit risk within the framework set through accepted Loan Policies, Credit Risk Management Ordinance, methodologies, ordinances 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 Change 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.

Organizational unit for Risk Management

The Risk Management unit is organised as 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 defining, evaluating or measuring, monitoring and controlling the risks to which the Group is exposed in the course of its business.

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26. Risk management (continued)

26.2. Strategy and risk management systems (continued)

Organizational unit for Risk Management (continued)

The Risk Management unit carries out its role by performing risk analyses and evaluations or measurements, developing risk management ordinances, procedures and methodologies, supervising and monitoring their application, recommending and controlling the accepted exposure limits, giving suggestions and recommendations for adequate risk management as well as reporting to the relevant authorities.

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 and Croatian National Bank, European regulations and Basel Committee recommendations applicable to the Bank as a special financial institution.

Risk measurement and reporting systems

When assessing or measuring risk, the Group takes into account historical data, business plans, current and expected market conditions and the specific characteristics of the Group as a special financial institution. The results of risk assessments or measurements, analyses carried out and stress test are presented at the meetings of the Risk Management Committee, the Management Board and the Supervisory Board. For the purpose of risk monitoring and control, systems of limits are introduced for the management of credit risk, liquidity risk, interest rate risk in the Bank's book and currency risk.

Bodies in charge are systematically reported on the quality of the loan portfolio, high exposure and the highest permissible exposure, regulatory capital adequacy, collection of receivables and risk placements, changes in internal ratings of commercial banks and measures taken in case of rating deterioration, a number of liquidity status indicators and projections of open foreign currency positions, possible losses by significant currencies, interest rate gap, projections of average weighted rates for sources and placements of financial institutions, etc. The reporting dynamics and the risk measurement and assessment methodologies are prescribed by the Group's internal acts.

26.3. Credit risk

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

The credit risk management system is a crucial part of the Group's business policy and it is an important strategic factor of business conduct, and therefore this area is regulated by a separate act - Credit risk management ordinance, that are applied on all phases of the credit process (from the development of new bank products or from the credit application, monitoring of the client's business operations until the final loan repayment).

Credit risk management ordinance is a comprehensive document that includes the methodologies intended for the assessment of operations of different client target groups.

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26. Risk management (continued)

26.3. Credit risk (continued)

In the case of direct financing, the Group uses the Credit risk evaluation methodology (for loans over HRK 1,500 thousand) or the Credit scoring methodology (for loans below HRK 1,500 thousand) to determine creditworthiness. The Credit scoring methodology is used to determine creditworthiness of clients that belong to the "small portfolio" and contains five scoring models: placements up to HRK 300 thousand to companies, crafts businesses and farmers, placements to start-ups up to HRK 300 thousand, placements from HRK 300 thousand to HRK 1,500 thousand to companies, placements to start-ups from HRK 300 thousand to HRK 1,500 thousand and placements from HRK 300 thousand to HRK 1,500 thousand for all other entrepreneurs.

The Credit Rating Assessment Methodology is used for the assessment of the risk of the clients that have been classified to the portfolio of individually significant clients, i.e. the loans exceeding HRK 1,500 thousand. The risk assessment can be contained in the assessment of client creditworthiness, assessment of investment project success and assessment of client creditworthiness containing analysis of future operations.

Pursuant to the HBOR Act, the Group on-lends part of its placements via commercial banks or leasing companies. The assessment of commercial banks is based on the Methodology for the Evaluation and Selection of Banks and the Methodology for the Evaluation and Selection of Foreign Banks, whereas the assessment of leasing companies is based on the Methodologies for the Evaluation and Selection of Leasing Companies. With an objective of facilitating the availability of HBOR's funds, the Group channels part of its placements through the risk sharing model, under which commercial banks and HBOR participate in the financing of clients in accordance with in advance agreed proportions.

The Group, as a developmental financial institution, supports growth and development of the Croatian economy through investment. For this reason, the clients mainly approach the Group with applications for credit financing of investment projects. In order to minimize risk and objectively estimate economic sustainability of the project as well as a return on investment, the Group is constantly improving existing organizational and technical solutions, reports and internal acts and proposes new organization regulations and implementation instructions.

By continuous monitoring and evaluation of the clients' businesses, the Group makes an effort to identify difficulties in their operation on a timely basis. For clients with difficulties, the Group tries to find appropriate ways to collect receivables by considering the possibilities of alternative repayment terms with a view to continue the production process and employment increase. Special emphasis is placed on identifying and monitoring reasons for bad debts, and procedures for prevention are built in operational procedures with a view to decreasing the share of high risk placements of the Group.

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26. Risk management (continued)

26.3. Credit risk (continued)

For the purpose of risk monitoring and control, the systems of limits have been established for the management of credit risk. High exposure limits and amounts of maximum permitted credit exposure to individual borrowers and persons related to borrowers have been established.

26.3.1. Risk related to loan commitments

Bank clients can be issued guarantees and letters of credit with deferred payment terms (also from loan proceeds) in accordance with the same procedure as prescribed for loan commitments to direct clients.

All guarantees are monitored on the basis of validity periods, whereas letters of credit with deferred payment terms are monitored on the basis of maturities. In the case of calling for payment, the Group shall make a payment on behalf of client. For the Group, such obligations generate exposures to risks that are similar to credit risks and they are mitigated by the same procedures that are applied to loans.

26.3.2. Impairment assessment (Methodology for the impairment of financial instruments in effect since 1 January 2018)

Impairment is formed in accordance with the International Financial Reporting Standard 9, documents made by CNB applicable to HBOR and ordinances and methodologies regulating the Group's operations.

On the basis of the assessed level of credit risk and the manner of calculating expected credit losses, clients are allocated to the following categories:

- Stage 1 – includes all clients with low credit risk and clients with respect to which no significant increase in credit risk has been established,
- Stage 2 – includes all clients with respect to which a significant increase in credit risk since initial recognition has been established
- Stage 3 – includes clients in default, i.e. clients with respect to which there is objective evidence of value impairment as well as purchased or originated credit-impaired (POCI) financial assets.

During the contractual relationship with a client, the level of expected credit losses of client is estimated. The estimation is carried out on the basis of the following three criteria:

- Debtor's creditworthiness
- Due fulfilment of obligations, and
- Quality of collateral.

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26. Risk management (continued)

26.3. Credit risk (continued)

26.3.2. Impairment assessment (Methodology for the impairment of financial instruments in effect since 1 January 2018) (continued)

For the entire duration of contractual relationship, debtor's creditworthiness is assessed in order to identify possible changes in the client's (debtor's) financial position, i.e. the probability of deterioration in its creditworthiness. When establishing client's creditworthiness, the group of related entities is also taken into account due to the effect of contamination, i.e. the possibility of the transfer of risk among related entities, and the creditworthiness of client is monitored through:

- Changes in financial rating of client and entities related to client,
- Criteria whose objective is to identify financial difficulties of client,
- Criteria contained in the client watch list, and
- Criteria for identification of increased credit risk.

A client is considered to duly meet its obligations if it settles all of its obligations fully (principal, interest, commissions, fees and other charges) in the amounts and within the deadlines determined in the respective contracts, where all placements and of-balance sheet liabilities of a client are considered as one.

Collateral assessment is based on the quality of collateral and the assessed amount as well as expected period of collection through collateral.

26.3.2.1. Definition of default status and exit from default status

Default status of an individual client occurs when one or both of the following conditions are met:

- it is considered probable that client will not settle its obligations towards HBOR entirely without taking into account the possibility of collection through collateral activation,
- clients is more than 90 days overdue in settling its due obligation under any significant loan liability. The significance threshold equals HRK 1,750 and is calculated on the client level by adding due obligations under all client placements.

When assessing the probability of a debtor not settling its obligations entirely, the following elements are considered:

- recognised impairment for credit losses due to identified significant deterioration in credit quality of debtor,
- selling of credit exposure at a considerable economic loss,
- rescheduling or restructuring of credit exposure owing to financial difficulties of debtor,
- bankruptcy or similar proceedings (pre-bankruptcy settlement, liquidation) against debtor,
- appointment of extraordinary administration, revoke of operating license, application of early intervention measures,
- cancellation of contract.

26. Risk management (continued)

26.3. Credit risk (continued)

26.3.2. Impairment assessment (Methodology for the impairment of financial instruments in effect since 1 January 2018) (continued)

26.3.2.1. Definition of default status and exit from default status (continued)

When determining a default status, in addition to the aforementioned, the relations within a group of related entities are also considered if the default status has been established with regard to one of the debtors within the respective group of related entities that results in the spreading of the default status on other entities within the same group.

All financial instruments of client in default status are classified to Stage 3.

Placements to clients in default status due to a material delay in the payment of obligations for more than 90 days can be classified to the rehabilitated category if 150 days have lapsed from the moment of non-existence of the default status trigger. During the 150-day trial period, client must not be more than 30 days overdue in the payment of obligations in a materially significant amount.

After the lapse of 150 days, only those clients are considered to have been cured who are found not to be in financial difficulties. If there are signs of default status recurrence, the status is not changed until a genuine and permanent improvement in the credit quality of client.

Restructured exposures caused by financial difficulties and repayment problems can be classified as cured after the lapse of two years from the last occurrence of the following events:

- restructuring day,
- default status establishment date,
- grace period expiry if approved under the restructuring process.

During the two-year trial period, the exposures that meet all of the following conditions can be classified to non-default status exposures:

- debtor has duly settled, upon maturity, at least the amount of restructured obligations in the amount of those due at the moment of the restructuring implementation,
- debtor has been regularly settling due obligations in accordance with the repayment schedule (or up to 30 days overdue),
- default status is not probable to occur,
- there are no overdue obligations after restructuring,
- there is no doubt that the debtor will continue to settle its obligations upon maturity.

All of the above conditions have to be satisfied also for the new placements to the same client. Only the placements to client that is not in financial difficulties can be reclassified to the cured category.

After all trial-period conditions have been satisfied, the financial instruments of cured clients can be reclassified to Stage 1.

26. Risk management (continued)

26.3. Credit risk (continued)

26.3.2. Impairment assessment (Methodology for the impairment of financial instruments in effect since 1 January 2018) (continued)

26.3.2.2. Bank's procedure of internal rating and probability of default (PD) assessment

The approach used for the modelling of PD is based on TTC (Through-the-Cycle) migration matrices for exposures in homogenous groups of direct borrowers and others. Risk categories (bucket) have been identified, and the movements of exposures among the aforementioned categories are analysed.

Risk categories for the aforementioned exposures are defined on the basis of the days overdue and the restructured exposure status. Before the modelling of PD, the data for the preceding 5-year period are collected.

On the occasion of the modelling of PD, the movement of exposures among the following categories is analysed:

- from 0 to 30 days overdue – category 1,
- from 31 to 90 days overdue – category 2,
- more than 90 days overdue and restructuring – default status event.

On the basis of the matrices of exposure movements from category to category, a PD 12-month value is calculated. PD marginal values are calculated by further multiplication of matrices and they are used for vector creation. PD borderline value vector is the basis for the calculation of a lifelong PD. The value of a lifelong PD depends on the tenor, i.e. the remaining period until maturity of individual exposure.

Approach based on external rating published by external credit rating agencies has been used for the calculation of PD for exposures from homogenous categories of financial institutions and central government and local and regional government.

For exposures to domestic financial institutions, owing to the fact that there is no external rating for all financial institutions in the Group portfolio, the existing internal ratings for domestic financial institutions have been mapped against the external rating, where a financial institution that has an external rating has been used as the mapping starting point, due to which the Group's internal rating has been made equal to the rating of S&P: "BB". In this way, the upper limit has been established for domestic financial institutions at the level of the government rating. Distribution of PD value for the other internal ratings is determined on the basis of the method of linear interpolation.

Ratings of external credit rating agencies are used for exposures to foreign financial institutions and, therefore, the appropriate PD value from their matrices is used, and if non-existing, the internal rating is used, i.e. the rules are applied that are identical to those applied to domestic financial institutions.

The value of 12-month PD is assessed by multiplying TTC matrix with itself. The value of lifelong PD is the cumulative value of marginal PD values or the sum of borderline PD values depending on the exposure tenor.

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26. Risk management (continued)

26.3. Credit risk (continued)

26.3.2. Impairment assessment (Methodology for the impairment of financial instruments in effect since 1 January 2018) (continued)

26.3.2.3. Exposure at default

For the purpose of modelling exposures at the moment of the occurrence of default status (Exposure at Default, hereinafter: EAD), or for the purpose of calculating credit conversion parameter (Credit Conversion Factor, hereinafter: CCF) and prepayment ratio, the data for the preceding five-year period are taken into account.

Pursuant to the mentioned historical data, the established ratio of premature collection almost equals zero and the loan conversion factor equals 1.

EAD is calculated for each contract. There are two approaches to the calculation of EAD:

- if there is a repayment schedule for exposure – based on the cash flow from the repayment schedule,
- if there is no repayment schedule for exposure – based on exposure amount on the reporting date.

For exposures classified in risk stage 1 and for exposures due, EAD is equal to the current exposure.

For exposures not yet due, lifelong EAD is calculated based on the repayment schedule, taking into account the amounts and the maturity period, but not later than until the final date of exposure maturity (tenor).

26.3.2.4. Loss given default

For groups of direct borrowers and others, loss at the moment of occurrence of the status of non-fulfilment of obligations (Loss Given Default, hereinafter: LGD) is estimated based on transactions after the date of occurrence of loss given default. Each transaction is discounted on the date of occurrence of loss given default by an appropriate discount rate, and the discount factor depends on the time elapsed. All increases after the date of occurrence of loss given default are cumulated with an individual exposure. The result of the mentioned calculation is the collection rate for each exposure in a homogenous group, and the total collection rate for a single homogenous group is comprised of the weighted average of collection rates of all individual exposures.

The probability of exit from the loss given default status is also taken into consideration in the calculation of LGD.

A report of external credit rating agencies is used as foundation for determining LGDs for the groups central government and local and regional government and financial institutions. In the annual reports on the occurrence of loss given default and collection status, credit rating agencies publish both historical and market rates of collection. The market rate of collection is the market price of a bond as compared to its value immediately before or at the moment of bond default. Based on market rates of collection for senior unsecured debt, issuer-weighted recovery rate is determined.

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26. Risk management (continued)

26.3. Credit risk (continued)

26.3.2. Impairment assessment (Methodology for the impairment of financial instruments in effect since 1 January 2018) (continued)

26.3.2.5. Significant increase in credit risk

For the purpose of identifying an increased credit risk, changes for all clients of the Group are monitored continuously, but at least once a year. All placements to the client, where an increased credit risk has been identified or in case of individually significant clients, whose exposure exceeds HRK 1,500 thousand and are on the client watch list, on the next reporting date, all financial instruments of the client with increased credit risk are classified to stage 2 based on the observed criteria such as:

- client's delay in the settlement of any significant obligation due towards HBOR more than 30 days (and less than 90 days),
- the client is in financial difficulties, but is not in LGD status,
- deterioration of rating, low credit rating of the client,
- non-compliance with contractual provisions
- loss of key buyers or suppliers
- etc.

Exit from the increased credit risk status is conditional on non-existence of all the criteria based on which the client has been grouped into the respective status upon the occurrence of the risk, and verification of all indicators is made at least once a year within the framework of the annual monitoring of the client. Deactivation of a portion of indicators can be carried out after six months. Indicators of an increased credit risk are active for a year, after which they have to be checked, and based on the monitoring results, either reactivated or deactivated. The result of any change is either the reclassification of financial instruments of the client to stage 1 or its stay in stage 2.

Financial instruments of the client with an investment rating of external credit rating agencies are deemed financial instruments of low credit risk. All exposures to the Republic of Croatia and units of local and regional government (ULRG), the Croatian National Bank, the European Investment Bank (EIB) and other development banks are also deemed financial instruments of clients with low credit risk. Financial instruments of clients with low credit risk are always grouped into stage 1.

26.3.2.6. Grouping financial assets measured on a collective basis

Credit risk is evaluated on a collective basis for all clients classified into risk stages 1 and 2 as well as for clients in the risk stage 3 belonging to the small loan portfolio. The clients belonging to the small loan portfolio are clients to which HBOR is exposed in the gross amount that is equal or less than HRK 1,500 thousand.

26. Risk management (continued)

26.3. Credit risk (continued)

26.3.2. Impairment assessment (Methodology for the impairment of financial instruments in effect since 1 January 2018) (continued)

26.3.2.6. Grouping financial assets measured on a collective basis (continued)

For the purpose of identifying a significant increase in credit risk and recognition of loss allowances for impairment on a collective basis, financial instruments are grouped into the following groups, based on the common features of credit risk, for the purpose of easier evaluation of a significant increase in credit risk:

- financial institutions,
- central government and local and regional government,
- direct borrowers – large,
- direct borrowers – small and medium-sized,
- direct borrowers – micro,
- direct borrowers – citizens,
- others.

By grouping financial instruments into homogeneous groups, it is ensured that in case of a significant increase in credit risk, the goal of recognising expected credit losses during the entire lifetime of a financial instrument is attained, even if the evidence on such significant increase in credit risk is still not available on the level of an individual instrument.

26.3.3. Analysis of input for ECL model within the framework of impact of macroeconomic conditions on PD

When including any information about the future, available sources (Croatian National Bank, Croatian Bureau of Statistics) on macroeconomic conditions are used with a view to projecting their impact on the current value of risk parameters.

Based on a historical analysis of impact of macroeconomic conditions and the available macroeconomic forecasts, a potential impact of future movement of macroeconomic conditions on the value of risk parameters is established by using the scenarios with related probabilities of occurrence of an individual scenario.

When estimating expected credit losses through the application of a previous experience on credit losses, the data on earlier credit losses rates are applied to the formed homogenous groups, and through the application of a certain method, connecting of a single group of financial instruments with the data on earlier experience on credit losses in the groups of financial instruments with similar characteristics of credit risk is made possible, as well as with important relevant data reflecting the current status.

The expected credit losses reflect the Group's expectations in respect of credit losses. However, when the Group, during the estimation of such expected credit losses, considers all reasonable and reliable data that are available with no necessary costs and efforts, the Group also considers appropriate market data on the credit risk of a certain financial instrument or similar financial instruments.

For the calculation of expected credit losses, the Group uses a large number of macroeconomic conditions, of which for two of them, correlations on PDs have been established per individual homogenous groups: GDP and exchange rate.

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26. Risk management (continued)

26.3. Credit risk (continued)

26.3.3. Analysis of input for ECL model within the framework of impact of macroeconomic conditions on PD (continued)

In order to determine the impact of future macroeconomic conditions on expected credit losses, by analysis based on historical data, the connection between macroeconomic conditions and PD is identified. After that, the impact of macroeconomic forecasts on PD values is estimated and the ratio is calculated, by means of which the estimated value of PD in two scenarios, an optimistic and a pessimistic one, is corrected.

26.3.4. Quantitative analysis of the reliability of the information used to calculate the ECL allowance

For the application of macroeconomic factors, the Bank uses a methodology with the level of reliability of 90%.

26.3.5. Overview of modified and restructured loans

Any amendment to the contractual provisions resulting in the conversion of contractual cash flows from financial assets is deemed to be modification.
A change of placement terms and conditions includes changes to certain contractual terms defined, mostly for the purpose of adaptation to changes during the implementation of an investment, and possibly also during repayments, and not caused by financial difficulties of the client. The amended terms would most frequently be accepted when approved if known or are the result of circumstances not controlled by the client.

Any changes in contractual obligations, by which a concession is made to the client that is considered to be in financial difficulties, are deemed to be rescheduling or restructuring. Concession may relate to any of the following measures:

- change of earlier contractual terms and conditions that are considered impossible to be met by the client and lead to the loss of its ability to settle liabilities and which would not be approved if the borrower had no financial difficulties (e.g. interest rate reduction, reduction or cancellation of interest income, change in principal amount, change or prolongation of repayment terms etc.)
- complete or partial refinancing of placements that would not be approved if the debtor had no financial difficulties.

Evidence on concession includes the following:

- the difference in favor of the client between the changed terms and conditions of the contract and former terms and conditions of the contract,
- inclusion of more favorable terms and conditions in the changed contract as compared to the terms and conditions that other debtors with a similar risk profile in the Bank portfolio could have obtained.

Rescheduling is considered any change of the originally agreed loan terms and conditions due to temporary financial difficulties of the client. Restructuring is considered any change of the originally agreed loan terms and conditions due to significant financial difficulties of the client that needs financial, business and operational restructuring, i.e. the client that is already in default.

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26. Risk management (continued)

26.3. Credit risk (continued)

26.3.6. Analysis of risk concentration

Through its development loan programmes, the Group encompasses the area of the entire Republic of Croatia with emphasis on supported areas. Credit risk is spread across geographic areas, industries, sectors and loan programmes. The Group seeks to avoid excessive concentration of credit risk and support the development of less developed areas of the Republic of Croatia through more favorable terms and conditions and new loan programmes (products) in accordance with the national strategy of development of certain activities.

Through financing of different sectors by stimulating production and development with the purpose of developing the Croatian economy, the Group is creating a better base for repayment of loans and minimization of risk.

As of 30 September 2018, the highest credit exposure of the Group to one debtor equaled HRK 2,221,897 thousand and of the Bank HRK 2,207,880 thousand (31 December 2017: HRK 2,536,756 thousand for the Group and for the Bank) without considering the effect of mitigation through collateral received.

As a special financial institution, the Bank performs its development role by granting loans to final borrowers via commercial banks with which it has entered into co-operation agreements. Since the exposure towards some of the banks has reached the maximum permitted level, the Bank, in order to be able to continue performing its development role and make the loans accessible to as many final borrowers as possible, has an approval from the Supervisory Board for an increase in the exposure towards the banks and their associated entities that have, in accordance with HBOR's internal methodology, been assigned a high rating. The exposure level is maintained by using all instruments and techniques available for mitigating HBOR's exposure towards the banks.

This exposure increase approved by the Supervisory Board was used by the Bank for further operating activities carried out with two banks.

26.3.7. Collaterals and other credit quality (creditworthiness) improvement

Collateral for the Bank's placements are:

1. obligatory (bills of exchange and promissory notes),
2. ordinary (property, ships, airplanes, bank guarantees, guarantees from the Republic of Croatia, guarantees from the local and regional authorities, guarantees from HAMAG-BICRO (Croatian Agency for SMSs, Innovation and Investment), insurance policy against political and/or commercial risks), and
3. other collateral (movable property, bills of exchange or guarantees from other companies with solid creditworthiness, fiduciary or pledge of companies' equity instruments, repossession of cash receivables or assignment for collectible receivables, deposit repossession, restriction of transferability on insurance policy of assets and/or person, pledge on a trademark, etc.).

All Group placements have to be secured with obligatory collateral. Low-exposure placements must be secured with one obligatory instrument of collateral at least. The selection of eligible collaterals does not depend on the insurance ratio achieved only, but also on the risks identified, with marketable and more valuable collaterals being preferred.

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26. Risk management (continued)

26.3. Credit risk (continued)

26.3.7. Collateral and other credit enhancements (creditworthiness) (continued)

Acceptable ordinary and other collateral are classified according to quality in five groups. The evaluation of collateral is based on quality, estimated based on marketability, documentation and possibility of supervision by the Bank as well as the possibility of enforced collection. Only the acceptable collateral is evaluated while the sixth group of collateral is unacceptable.

When deciding on loan approval, weak creditworthiness cannot be replaced by quality collateral, except when the security instruments are first class instruments: guarantees from the Republic of Croatia, guarantees of local/regional authorities (JLPS), guarantees from HAMAG-BICRO, loan insurance policy and when the Republic of Croatia, JLPS or other government authorities guarantee for clients implicitly.

For the purpose of mitigation of credit risk and reduction of business costs, and in compliance with the Act on the Croatian Bank for Reconstruction and Development, the Group approves part of its placements through financial institutions. As collateral for placements approved to final customers through financial institutions, the Group uses mandatory collateral from commercial banks/leasing companies. The financial institution is obliged to deliver them based on the Mutual business cooperation agreement, but not for each individual placement to the final customer based on that Agreement. In the individual contracts for placements to the final customers, the use of obligatory collateral delivered with the Agreement on mutual business cooperation is contracted. As the financial institutions take on the risk of default by the final customer, they are given the option to contract sufficient collateral with the final customer/leasing company.

Where the loan is approved through a commercial bank, depending on the financial institution's internal rating, the Bank contracts a sub-mortgage. In this case, either the commercial bank transfers the ownership over the collateral, while the Bank takes a mortgage over the same collateral, or the commercial bank forms a mortgage on the collateral, while the Bank takes a sub-mortgage on the same collateral.

By signing the Agreement on mutual business cooperation, a transfer of any claims the commercial bank may have towards the final customer is made to HBOR. Pursuant to the Agreement, the commercial bank authorises HBOR to unilaterally inform the bank in written form that, in the case of the commercial bank's insolvency or threat of liquidation, untimely repayments or default on the commitments agreed in the individual contract on interbank loan or actual (insolvent or regular) liquidation, the Bank assumes the receivable towards the final customer from the commercial bank, with the effect of assignment of receivables instead of contract fulfilment.

Additionally, based on the Agreement on mutual business cooperation and based on the said unilateral statement, the commercial bank authorises HBOR that HBOR may, without having to obtain any further consent or approval from the commercial bank, enter itself into all public registers, books or records as the creditor instead of the commercial bank under any security arrangements for assigned receivables as well as under any other proceedings.

From the moment of the assignment, the final customer is obliged to make all payments related to the assigned receivable directly to HBOR. Should the commercial bank receive any payments in the name of collection of receivables per particular placement, the bank is obliged to immediately transfer the funds to HBOR.

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26. Risk management (continued)

26.3. Credit risk (continued)

26.3.7. Collateral and other credit enhancements (creditworthiness) (continued)

All direct placements are mainly secured with a transfer of ownership or with a mortgage over real estate and, if is possible, the Group obtains as security against credit risk a guarantee from HAMAG-BICRO, a guarantee from the local and regional authority, a guarantee from the Republic of Croatia, etc.

The Group has the right to verify the appraisal of the collateral value and such a confirmed appraisal is considered as the final collateral value.

Depending on the type of collateral, the credit programme, the general terms of security or the decision of an authorised body, the Group has determined the necessary ratio of placements and collateral.

In case of the real estate, the necessary ratio of placement and estimated market value of the real estate should be 1:1.3, except in case of investments on the islands, supported areas where such ratio is 1:1.2. In case of moveable property, the necessary ratio of placement and estimated market value of moveable property should be 1:2. If a lower ratio of the collateral value than those prescribed is proposed, reasons and justifications of deviations from the prescribed ratio are explained.

The Bank continually monitors the value of collaterals by re-estimation or confirmation/verification of the value. Monitoring of the value of mortgaged real estate is performed once a year for business real estate, and every three years for residential buildings. The Bank has formed a special organizational unit for:
- evaluation and verification of already appraised and offered collateral (real estate and movables),
- technical and technological analysis of investment projects, and
- financial supervision over the withdrawal of loan funds for the purpose of the implementation of the investment project.

In the event that it is not possible for the Bank to collect from regular operations, the Bank starts collection from the collateral at its disposal. This encompasses initiating collection from the obligatory collateral, then from first-class, unconditional collateral payable on first demand and then from the mortgage or fiduciary ownership of the real estate or movable property, including their repossession with a view to decreasing or fully settling the Bank's receivables. The Bank does not use repossessed assets for business purposes.

In the case of risk-sharing models, collateral is created by commercial banks depending on the type of the model:
- in accordance with their own internal documents and good banking practices, and, consequently, HBOR's documents and collateral ratios prescribed in them do not apply,
- or collateral is created by commercial banks and HBOR for their respective shares in the loan in accordance with their own documents, decisions and/or procedures.

26. Risk management (continued)

26.3. 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
	Highest exposure	Highest exposure	Highest exposure	Highest exposure
	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000
Assets				
Cash on hand and current accounts with banks	1,154,406	1,403,664	1,140,389	1,401,130
Deposits with other banks	-	29,138	-	29,138
Loans to financial institutions	10,075,209	10,836,141	10,075,209	10,836,141
Loans to other customers	12,146,004	12,383,623	12,146,004	12,383,623
Financial assets at fair value through profit or loss*	2,466	-	2,466	-
Financial assets at fair value through other comprehensive income*	2,953,392	n/a	2,919,002	n/a
Debt instruments at amortised cost	1,373	n/a	-	n/a
Assets available for sale	n/a	2,483,371	n/a	2,443,699
Assets held to maturity	n/a	1,399	n/a	-
Other assets	6,456	19,297	4,786	12,282
Total	**26,339,306**	**27,156,633**	**26,287,856**	**27,106,013**
Guarantees and commitments				
Guarantees issued in HRK	17,703	33,993	17,703	33,993
Issued guarantees in foreign currency	967,935	2,446,324	967,935	2,446,324
Open letters of credit in foreign currency	13,160	-	13,160	-
Undrawn loans	3,831,675	2,986,798	3,831,675	2,986,798
Other irrevocable contingent liabilities	93	335	93	335
Total	**4,830,566**	**5,467,450**	**4,830,566**	**5,467,450**
Total credit risk exposure	**31,169,872**	**32,624,083**	**31,118,422**	**32,573,463**

**The disclosed financial statements as at and for the year ended on 31 December 2017 under these positions included also investments in investment funds. This change relates to all parts of note 26.3. Credit risk.*

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26. Risk management (continued)

26.3. 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, 2018	Republic of Croatia	EU countries	Other countries	Total
	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	638,890	508,835	6,681	1,154,406
Deposits with other banks	-	-	-	-
Loans to financial institutions	10,075,209	-		10,075,209
Loans to other customers	11,354,273	-	791,731	12,146,004
Financial assets at fair value through profit or loss	2,466	-	-	2,466
Financial assets at fair value through other comprehensive income	2,953,392	-	-	2,953,392
Debt instruments at amortised cost	1,373	-	-	1,373
Other assets	5,941	514	1	6,456
Total	**25,031,544**	**509,349**	**798,413**	**26,339,306**
Guarantees and commitments				
Guarantees issued in HRK	17,703	-	-	17,703
Issued guarantees in foreign currency	967,935	-	-	967,935
Open letters of credit in foreign currency	13,160	-	-	13,160
Undrawn loans	3,323,637	-	508,038	3,831,675
Other irrevocable contingent liabilities	93	-	-	93
Total	**4,322,528**	**-**	**508,038**	**4,830,566**
Total credit risk exposure	**29,354,072**	**509,349**	**1,306,451**	**31,169,872**

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26. Risk management (continued)

26.3. 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, 2017	Republic of Croatia HRK '000	EU countries HRK '000	Other countries HRK '000	Total HRK '000
Assets				
Cash on hand and current accounts with banks	1,320,579	82,884	201	1,403,664
Deposits with other banks	29,116	22	-	29,138
Loans to financial institutions	10,836,141	-	-	10,836,141
Loans to other customers	12,075,474	-	308,149	12,383,623
Assets available for sale	2,483,371	-	-	2,483,371
Assets held to maturity	1,399	-	-	1,399
Other assets	13,105	6,045	147	19,297
Total	**26,759,185**	**88,951**	**308,497**	**27,156,633**
Guarantees and commitments				
Guarantees issued in HRK	33,391	602	-	33,993
Issued guarantees in foreign currency	2,446,324	-	-	2,446,324
Undrawn loans	2,844,366	-	142,432	2,986,798
Other irrevocable contingent liabilities	335	-	-	335
Total	**5,324,416**	**602**	**142,432**	**5,467,450**
Total credit risk exposure	**32,083,601**	**89,553**	**450,929**	**32,624,083**

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26. Risk management (continued)

26.3. 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, 2018	Republic of Croatia HRK '000	EU countries HRK '000	Other countries HRK '000	Total HRK '000
Assets				
Cash on hand and current accounts with banks	624,873	508,835	6,681	1,140,389
Deposits with other banks	-	-	-	-
Loans to financial institutions	10,075,209	-	-	10,075,209
Loans to other customers	11,354,273	-	791,731	12,146,004
Financial assets at fair value through profit or loss	2,466	-	-	2,466
Financial assets at fair value through other comprehensive income	2,919,002	-	-	2,919,002
Other assets	4,785	-	1	4,786
Total	**24,980,608**	**508,835**	**798,413**	**26,287,856**
Guarantees and commitments				
Guarantees issued in HRK	17,703	-	-	17,703
Issued guarantees in foreign currency	967,935	-	-	967,935
Open letters of credit in foreign currency	13,160	-	-	13,160
Undrawn loans	3,323,637	-	508,038	3,831,675
Other irrevocable contingent liabilities	93	-	-	93
Total	**4,322,528**	**-**	**508,038**	**4,830,566**
Total credit risk exposure	**29,303,136**	**508,835**	**1,306,451**	**31,118,422**

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26. Risk management (continued)

26.3. 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, 2017	Republic of Croatia	EU countries	Other countries	Total
	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	1,318,045	82,884	201	1,401,130
Deposits with other banks	29,116	22	-	29,138
Loans to financial institutions	10,836,141	-	-	10,836,141
Loans to other customers	12,075,474	-	308,149	12,383,623
Assets available for sale	2,443,699	-	-	2,443,699
Other assets	11,911	224	147	12,282
Total	**26,714,386**	**83,130**	**308,497**	**27,106,013**
Guarantees and commitments				
Guarantees issued in HRK	33,391	602	-	33,993
Issued guarantees in foreign currency	2,446,324	-	-	2,446,324
Undrawn loans	2,844,366	-	142,432	2,986,798
Other irrevocable contingent liabilities	335	-	-	335
Total	**5,324,416**	**602**	**142,432**	**5,467,450**
Total credit risk exposure	**32,038,802**	**83,732**	**450,929**	**32,573,463**

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26. Risk management (continued)

26.3. 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	Highest exposure Sep 30, 2018 HRK '000	Highest exposure after the effect of mitigation through collateral received Sep 30, 2018 HRK '000	Highest exposure Dec 31, 2017 HRK '000	Highest exposure after the effect of mitigation through collateral received Dec 31, 2017 HRK '000
Financial intermediation and insurance	13,103,621	-	13,991,248	-
Water and electric supply and other infrastructure	1,415,800	1,053,376	1,260,064	931,740
Tourism	3,260,819	83,841	3,550,174	268,536
Transport, warehousing and connections	2,011,141	710,083	1,979,350	857,758
Shipbuilding	3,010,913	290,114	2,994,248	416,604
Agriculture and fishery	541,633	140,958	455,716	68,992
Food industry	783,030	123,104	952,014	143,121
Construction industry	1,110,038	47,684	1,225,516	52,841
Other industry	483,315	132,678	493,034	149,251
Public administration	2,941,691	2,941,691	2,473,206	2,473,206
Education	44,441	40,084	47,201	42,085
Manufacture of basic metals and fabricated metal products, except machinery and equipment	295,465	17,309	321,123	55,470
Manufacture of chemicals and chemical products	59,801	40,155	403,043	89,662
Manufacture of other non-metallic mineral products	221,123	66,760	261,053	55,823
Pharmaceutical industry	396,666	872	544,777	891
Other	1,490,375	251,982	1,672,316	476,548
Total credit risk exposure	**31,169,872**	**5,940,691**	**32,624,083**	**6,082,528**

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26. Risk management (continued)

26.3. 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	Highest exposure	Highest exposure after the effect of mitigation through collateral received	Highest exposure	Highest exposure after the effect of mitigation through collateral received
	Sep 30, 2018	Sep 30, 2018	Dec 31, 2017	Dec 31, 2017
	HRK '000	HRK '000	HRK '000	HRK '000
Financial intermediation and insurance	13,089,120	-	13,982,804	-
Water and electric supply and other infrastructure	1,415,800	1,053,376	1,260,064	931,740
Tourism	3,260,819	83,841	3,550,170	268,533
Transport, warehousing and connections	2,011,108	710,050	1,979,333	857,741
Shipbuilding	3,010,913	290,114	2,994,248	416,604
Agriculture and fishery	541,610	140,936	455,679	68,956
Food industry	782,919	122,992	951,920	143,027
Construction industry	1,110,022	47,668	1,225,514	52,839
Other industry	483,014	132,377	492,757	148,974
Public administration	2,906,619	2,906,619	2,432,805	2,432,805
Education	44,441	40,084	47,201	42,085
Manufacture of basic metals and fabricated metal products, except machinery and equipment	295,330	17,175	321,017	55,363
Manufacture of chemicals and chemical products	59,781	40,135	403,025	89,644
Manufacture of other non-metallic mineral products	221,100	66,738	261,037	55,807
Pharmaceutical industry	395,795	-	543,887	-
Other	1,490,031	251,638	1,672,002	476,249
Total credit risk exposure	**31,118,422**	**5,903,743**	**32,573,463**	**6,040,367**

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.

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26. Risk management (continued)

26.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

The fair value of collateral for the Group as of 30 September 2018 amounted to HRK 25,229,181 thousand (31 December 2017: HRK 26,541,555 thousand), and for the Bank HRK 25,214,679 thousand (31 December 2017: HRK 26,533,096 thousand).

In the total net highest exposure of the Bank after the effect of mitigation through collateral received as of 30 September 2018, the credit risk of HRK 4,312,075 thousand (31 December 2017: HRK 3,966,003 thousand) is not covered with ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 586,018 thousand (31 December 2017: HRK 619,922 thousand), from local and regional authorities of HRK 481,760 thousand (31 December 2017: HRK 510,573 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 234,599 thousand (31 December 2017: HRK 240,099 thousand), government funds of HRK 79 thousand (31 December 2017: HRK 43 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 2,918,254 thousand (31 December 2017: HRK 2,443,010 thousand). In addition, an amount of HRK 91,365 thousand (31 December 2017: HRK 152,356 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.

26. Risk management (continued)

26.3. Credit risk (continued) the effect of mitigation through collateral received

Credit risk quality according to type of financial assets

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

Group Sep 30, 2018.	Net exposure of portfolio - risk Stage 1 HRK '000	Net exposure of portfolio - risk Stage 2 HRK '000	Net exposure of portfolio - risk Stage 3 HRK '000	Net exposure of portfolio of risk POCI HRK '000	Not subject to IFRS 9 HRK '000	Net exposure of total portfolio HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000	Not subject to IFRS 9 after the effect of mitigation through collateral received HRK '000	Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000
Assets												
Cash on hand and current accounts with banks	1,154,406	-	-	-	-	1,154,406	-	-	-	-	-	-
Deposits with other banks	-	-	-	-	-	-	-	-	-	-	-	-
Loans to financial institutions	9,878,304	162,912	33,993	-	-	10,075,209	-	-	-	-	-	-
Loans to other customers	8,291,435	1,065,876	2,626,994	161,699	-	12,146,004	1,872,749	121,843	327,086	-	-	2,321,678
Financial assets at fair value through profit or loss	-	-	-	-	2,466	2,466	-	-	-	-	2,466	2,466
Financial assets at fair value through other comprehensive income	2,951,862	1,530	-	-	-	2,953,392	2,951,862	1,530	-	-	-	2,953,392
Debt instruments at amortised cost	1,373	-	-	-	-	1,373	1,373	-	-	-	-	1,373
Other assets	2,982	65	3,409	-	-	6,456	2,495	61	3,299	-	-	5,855
Total	**22,280,362**	**1,230,383**	**2,664,396**	**161,699**	**2,466**	**26,339,306**	**4,828,479**	**123,434**	**330,385**	**-**	**2,466**	**5,284,764**
Guarantees and commitments												
Guarantees issued in HRK	1,485	722	15,496	-	-	17,703	1,341	-	-	-	-	1,341
Issued guarantees in foreign currency	32,187	125	935,623	-	-	967,935	1,535	3	158,633	-	-	160,171
Open letters of credit in foreign currency	-	-	-	-	13,160	13,160	-	-	-	-	-	-
Undrawn loans	3,716,119	115,556	-	-	-	3,831,675	447,693	46,629	-	-	-	494,322
Other irrevocable contingent liabilities	93	-	-	-	-	93	93	-	-	-	-	93
Total	**3,749,884**	**116,403**	**951,119**	**-**	**13,160**	**4,830,566**	**450,662**	**46,632**	**158,633**	**-**	**-**	**655,927**
Total credit risk exposure	**26,030,246**	**1,346,786**	**3,615,515**	**161,699**	**15,626**	**31,169,872**	**5,279,141**	**170,066**	**489,018**	**-**	**2,466**	**5,940,691**

26. Risk management (continued)

26.3. 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 and after loss allowances, according to the type of financial assets on positions of assets and guarantees and commitments by risk category, is as follows (continued):

Group Dec 31, 2017	Net exposure of portfolio of risk group A HRK '000	Net exposure of portfolio of risk group B HRK '000	Net exposure of portfolio of risk group C HRK '000	Net exposure of total portfolio HRK '000	Net exposure of portfolio of risk group A after the effect of mitigation through collateral received HRK '000	Net exposure of portfolio of risk group B after the effect of mitigation through collateral received HRK '000	Net exposure of portfolio of risk group C after the effect of mitigation through collateral received HRK '000	Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000
Assets								
Cash on hand and current accounts with banks	1,403,664	-	-	1,403,664	-	-	-	-
Deposits with other banks	29,138	-	-	29,138	-	-	-	-
Loans to financial institutions	10,624,635	211,506	-	10,836,141	-	-	-	-
Loans to other customers	10,990,700	1,392,923	-	12,383,623	2,761,223	50,706	-	2,811,929
Assets available for sale	2,483,371	-	-	2,483,371	2,483,371	-	-	2,483,371
Assets held to maturity	1,399	-	-	1,399	1,399	-	-	1,399
Other assets	18,871	426	-	19,297	10,608	426	-	11,034
Total	**25,551,778**	**1,604,855**	**-**	**27,156,633**	**5,256,601**	**51,132**	**-**	**5,307,733**
Guarantees and commitments								
Guarantees issued in HRK	33,993	-	-	33,993	1,254	-	-	1,254
Issued guarantees in foreign currency	2,425,975	20,349	-	2,446,324	330,170	-	-	330,170
Undrawn loans	2,984,971	1,827	-	2,986,798	443,036	-	-	443,036
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
Total	**5,445,274**	**22,176**	**-**	**5,467,450**	**774,795**	**-**	**-**	**774,795**
Total credit risk exposure	**30,997,052**	**1,627,031**	**-**	**32,624,083**	**6,031,396**	**51,132**	**-**	**6,082,528**

26. Risk management (continued)

26.3. 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 and after loss allowances ,according to the type of financial assets on positions of assets and guarantees and commitments by risk category, is as follows (continued):

Bank Sep 30, 2018.	Net exposure of portfolio - risk Stage 1 HRK '000	Net exposure of portfolio - risk Stage 2 HRK '000	Net exposure of portfolio - risk Stage 3 HRK '000	Net exposure of portfolio of risk POCI HRK '000	Not subject to IFRS 9 HRK '000	Net exposure of total portfolio HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000	Not subject to IFRS 9 after the effect of mitigation through collateral received HRK '000	Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000
Assets												
Cash on hand and current accounts with banks	1,140,389	-	-	-	-	1,140,389	-	-	-	-	-	-
Deposits with other banks	-	-	-	-	-	-	-	-	-	-	-	-
Loans to financial institutions	9,878,304	162,912	33,993	-	-	10,075,209	-	-	-	-	-	-
Loans to other customers	8,291,435	1,065,876	2,626,994	161,699	-	12,146,004	1,872,749	121,843	327,086	-	-	2,321,678
Financial assets at fair value through profit or loss	-	-	-	-	2,466	2,466	-	-	-	-	2,466	2,466
Financial assets at fair value through other comprehensive income	2,918,254	748	-	-	-	2,919,002	2,918,254	748	-	-	-	2,919,002
Other assets	1,312	65	3,409	-	-	4,786	1,310	61	3,299	-	-	4,670
Total	**22,229,694**	**1,229,601**	**2,664,396**	**161,699**	**2,466**	**26,287,856**	**4,792,313**	**122,652**	**330,385**	**-**	**2,466**	**5,247,816**
Guarantees and commitments												
Guarantees issued in HRK	1,485	722	15,496	-	-	17,703	1,341	-	-	-	-	1,341
Issued guarantees in foreign currency	32,187	125	935,623	-	-	967,935	1,535	3	158,633	-	-	160,171
Open letters of credit in foreign currency	-	-	-	-	13,160	13,160	-	-	-	-	-	-
Undrawn loans	3,716,119	115,556	-	-	-	3,831,675	447,693	46,629	-	-	-	494,322
Other irrevocable contingent liabilities	93	-	-	-	-	93	93	-	-	-	-	93
Total	**3,749,884**	**116,403**	**951,119**	**-**	**13,160**	**4,830,566**	**450,662**	**46,632**	**158,633**	**-**	**-**	**655,927**
Total credit risk exposure	**25,979,578**	**1,346,004**	**3,615,515**	**161,699**	**15,626**	**31,118,422**	**5,242,975**	**169,284**	**489,018**	**-**	**2,466**	**5,903,743**

26. Risk management (continued)

26.3. Credit risk (continued)

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

In the total net highest exposure of the Group and the Bank after the effect of mitigation through collateral received, the amount of loans to other customers of HRK 1,392,632 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 584,908 thousand, local and regional authorities of HRK 481,760 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 234,599 thousand. An additional amount of HRK 91,365 thousand relates to receivables from majority state-owned companies (controlling influence).

The amount of financial assets at fair value through other comprehensive income and debt instruments at amortised cost is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 2,953,235 thousand for the Group and HRK 2,918,254 thousand for the Bank.

Other assets of HRK 1,096 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

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26. Risk management (continued)

26.3. 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 and after loss allowances, according to the type of financial assets on positions of assets and guarantees and commitments by risk category, is as follows (continued):

Bank

Dec 31, 2017	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	Net exposure of portfolio of risk group A after the effect of mitigation through collateral received	Net exposure of portfolio of risk group B after the effect of mitigation through collateral received	Net exposure of portfolio of risk group C after the effect of mitigation through collateral received	Net exposure of total portfolio after the effect of mitigation through collateral received
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets								
Cash on hand and current accounts with banks	1,401,130	-	-	1,401,130	-	-	-	-
Deposits with other banks	29,138	-	-	29,138	-	-	-	-
Loans to financial institutions	10,624,635	211,506	-	10,836,141	-	-	-	-
Loans to other customers	10,990,700	1,392,923	-	12,383,623	2,761,223	50,706	-	2,811,929
Assets available for sale	2,443,699	-	-	2,443,699	2,443,699	-	-	2,443,699
Other assets	11,856	426	-	12,282	9,518	426	-	9,944
Total	**25,501,158**	**1,604,855**	**-**	**27,106,013**	**5,214,440**	**51,132**	**-**	**5,265,572**
Guarantees and commitments								
Guarantees issued in HRK	33,993	-	-	33,993	1,254	-	-	1,254
Issued guarantees in foreign currency	2,425,975	20,349	-	2,446,324	330,170	-	-	330,170
Undrawn loans	2,984,971	1,827	-	2,986,798	443,036	-	-	443,036
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
Total	**5,445,274**	**22,176**	**-**	**5,467,450**	**774,795**	**-**	**-**	**774,795**
Total credit risk exposure	**30,946,432**	**1,627,031**	**-**	**32,573,463**	**5,989,235**	**51,132**	**-**	**6,040,367**

In the total net highest exposure of the Group and the Bank, the amount of loans to other customers of HRK 1,521,624 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 618,596 thousand, local and regional authorities of HRK 510,573 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 240,099 thousand. An additional amount of HRK 152,356 thousand relates to receivables from majority state-owned companies (controlling influence).

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26. Risk management (continued)

26.3. Credit risk (continued)

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

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 2,483,310 thousand for the Group and HRK 2,443,010 thousand for the Bank.

Other assets of HRK 1,034 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

26. Risk management (continued)

26.4. Liquidity risk

The table below provides an analysis of total assets and total liabilities as of 30 September 2018 and 31 December 2017 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, 2018	Up to 1 month HRK '000	1 to 3 months HRK '000	3 months to 1 year HRK '000	1 to 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
Assets						
Cash on hand and current accounts with banks	1,154,409	-	-	-	-	**1,154,409**
Deposits with other banks	-	-	-	-	-	**-**
Loans to financial institutions*	646,321	319,534	1,230,780	2,713,186	5,165,388	**10,075,209**
Loans to other customers	2,217,501	342,941	1,240,333	1,998,354	6,346,875	**12,146,004**
Financial assets at fair value through profit or loss	640,563	-	-	-	2,466	**643,029**
Financial assets at fair value through other comprehensive income	2,970,374	8,572	177	-	-	**2,979,123**
Debt instruments at amortised cost	-	9	9	-	1,355	**1,373**
Property, plant and equipment and intangible assets	-	-	-	-	51,230	**51,230**
Non-current assets held for sale	-	-	1,468	10,828	12,738	**25,034**
Other assets	6,456	1,434	5,613	1,800	309	**15,612**
Total assets	**7,635,624**	**672,490**	**2,478,380**	**4,724,168**	**11,580,361**	**27,091,023**
Liabilities						
Deposits from customers	136,034	30	57,060	5,118	14,278	**212,520**
Borrowings	464,913	426,466**	1,424,451	3,945,851	8,819,898	**15,081,579**
Debt securities issued	-	26,543	-	1,107,209	-	**1,133,752**
Other liabilities	234,609	28,299	87,808	169,783	182,923	**703,422**
Total liabilities	**835,556**	**481,338**	**1,569,319**	**5,227,961**	**9,017,099**	**17,131,273**
Liquidity gap	**6,800,068**	**191,152**	**909,061**	**(503,793)**	**2,563,262**	**9,959,750**

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

** Receivables of HRK 69,931 thousand relate to reverse REPO agreements.*
*** Accrued interest on loans not yet due is allocated to the category from 1 to 3 months.*

26. Risk management (continued)

26.4. Liquidity risk (continued)

Group Dec 31, 2017	Up to 1 month HRK '000	1 - 3 months HRK '000	3 months to 1 year HRK '000	1 to 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
Assets						
Cash on hand and current accounts with banks	1,403,680	-	-	-	-	1,403,680
Deposits with other banks	29,138	-	-	-	-	29,138
Loans to financial institutions*	499,790	411,937	1,369,798	2,888,174	5,666,442	10,836,141
Loans to other customers	2,048,659	396,509	885,769	2,116,638	6,936,048	12,383,623
Financial assets at fair value through profit or loss	291	-	-	-	-	291
Assets available for sale	3,308,009	13,532	23	-	-	3,321,564
Assets held to maturity	-	9	5	-	1,385	1,399
Property, plant and equipment and intangible assets	-	-	-	-	53,557	53,557
Non-current assets held for sale	-		1,932	2,827	11,938	16,697
Other assets	18,904	7,543	1,397	497	1,130	29,471
Total assets	**7,308,471**	**829,530**	**2,258,924**	**5,008,136**	**12,670,500**	**28,075,561**
Liabilities						
Deposits from customers	251,822	187	171,291	211,134	10,307	644,741
Borrowings	168,310	307,151**	1,155,999	3,853,447	9,902,974	15,387,881
Debt securities issued	-	43,909	-	1,117,790	-	1,161,699
Other liabilities	186,306	22,257	81,485	152,731	162,674	605,453
Total liabilities	**606,438**	**373,504**	**1,408,775**	**5,335,102**	**10,075,955**	**17,799,774**
Liquidity gap	**6,702,033**	**456,026**	**850,149**	**(326,966)**	**2,594,545**	**10,275,787**

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

** Receivables of HRK 236,400 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 150,000 thousand was placed in the 3 months up to 1 year maturity category.*
*** Accrued interest on loans not yet due is allocated to the category from 1 to 3 months.*

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26. Risk management (continued)

26.4. Liquidity risk (continued)

The table below provides an analysis of total assets and total liabilities as of 30 September 2018 and 31 December 2017 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, 2018	**Up to 1 month HRK '000**	**1 to 3 months HRK '000**	**3 months to 1 year HRK '000**	**1 to 3 years HRK '000**	**Over 3 years HRK '000**	**Total HRK '000**
Assets						
Cash on hand and current accounts with banks	1,140,392	-	-	-	-	1,140,392
Deposits with other banks	-	-	-	-	-	-
Loans to financial institutions*	646,321	319,534	1,230,780	2,713,186	5,165,388	10,075,209
Loans to other customers	2,217,501	342,941	1,240,333	1,998,354	6,346,875	12,146,004
Financial assets at fair value through profit or loss	634,114	-	-	-	2,466	636,580
Financial assets at fair value through other comprehensive income	2,936,289	8,444	-	-	-	2,944,733
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	51,152	51,152
Non-current assets held for sale	-	-	1,468	10,828	12,738	25,034
Other assets	5,399	874	5,555	1,800	-	13,628
Total assets	**7,580,016**	**671,793**	**2,478,136**	**4,724,168**	**11,614,743**	**27,068,856**
Liabilities						
Deposits from customers	136,034	30	57,060	5,118	14,278	212,520
Borrowings	464,913	426,466**	1,424,451	3,945,851	8,819,898	15,081,579
Debt securities issued	-	26,543	-	1,107,209	-	1,133,752
Other liabilities	234,030	26,009	83,284	160,109	185,582	689,014
Total liabilities	**834,977**	**479,048**	**1,564,795**	**5,218,287**	**9,019,758**	**17,116,865**
Liquidity gap	**6,745,039**	**192,745**	**913,341**	**(494,119)**	**2,594,985**	**9,951,991**

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

** Receivables of HRK 69,931 thousand relate to reverse REPO agreements.*
*** Accrued interest on loans not yet due is allocated to the category from 1 to 3 months.*

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26. Risk management (continued)

26.4. Liquidity risk (continued)

Bank **Dec 31, 2017**	**Up to 1 month** **HRK '000**	**1 - 3 months** **HRK '000**	**3 months to 1 year** **HRK '000**	**1 - 3 years** **HRK '000**	**Over 3 years** **HRK '000**	**Total** **HRK '000**
Assets						
Cash on hand and current accounts with banks	1,401,146	-	-	-	-	1,401,146
Deposits with other banks	29,138	-	-	-	-	29,138
Loans to financial institutions*	499,790	411,937	1,369,798	2,888,174	5,666,442	10,836,141
Loans to other customers	2,048,659	396,509	885,769	2,116,638	6,936,048	12,383,623
Assets available for sale	3,263,758	13,436	-	-	-	3,277,194
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	53,514	53,514
Non-current assets held for sale	-	-	1,932	2,827	11,938	16,697
Other assets	17,831	1,648	1,350	497	900	22,226
Total assets	**7,260,322**	**823,530**	**2,258,849**	**5,008,136**	**12,704,966**	**28,055,803**
Liabilities						
Deposits from customers	251,822	187	171,291	211,134	10,307	644,741
Borrowings	168,310	307,151**	1,155,999	3,853,447	9,902,974	15,387,881
Debt securities issued	-	43,909	-	1,117,790	-	1,161,699
Other liabilities	185,299	21,082	76,872	144,072	165,326	592,651
Total liabilities	**605,431**	**372,329**	**1,404,162**	**5,326,443**	**10,078,607**	**17,786,972**
Liquidity gap	**6,654,891**	**451,201**	**854,687**	**(318,307)**	**2,626,359**	**10,268,831**

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

** Receivables of HRK 236,400 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 150,000 thousand was placed in the 3 months up to 1 year maturity category.*
*** Accrued interest on loans not yet due is allocated to the category from 1 to 3 months.*

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26. Risk management (continued)

26.4. Liquidity risk (continued)

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

Group Sep 30, 2018	Up to 1 month HRK '000	1 - 3 months HRK '000	3 months to 1 year HRK '000	1 - 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
Financial liabilities						
Deposits from customers	136,034	30	57,060	5,118	14,278	212,520
Borrowings	490,725	395,199	1,607,304	4,545,777	9,500,136	16,539,141
Debt securities issued	-	-	66,816	1,174,025	-	1,240,841
Other liabilities	234,609	28,299	87,808	169,783	182,923	703,422
Total	**861,368**	**423,528**	**1,818,988**	**5,894,703**	**9,697,337**	**18,695,924**

Group Dec 31, 2017	Up to 1 month HRK '000	1 - 3 months HRK '000	3 months to 1 year HRK '000	1 - 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
Financial liabilities						
Deposits from customers	251,822	187	171,291	211,134	10,307	644,741
Borrowings	197,142	283,160	1,358,672	4,292,634	10,758,724	16,890,332
Debt securities issued	-	-	67,623	1,253,036	-	1,320,659
Other liabilities	186,306	22,257	81,485	152,731	162,674	605,453
Total	**635,270**	**305,604**	**1,679,071**	**5,909,535**	**10,931,705**	**19,461,185**

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26. Risk management (continued)

26.4. Liquidity risk (continued)

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

Bank Sep 30, 2018	Up to 1 month HRK '000	1 - 3 months HRK '000	3 months to 1 year HRK '000	1 - 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
Financial liabilities						
Deposits from customers	136,034	30	57,060	5,118	14,278	212,520
Borrowings	490,725	395,199	1,607,304	4,545,777	9,500,136	16,539,141
Debt securities issued	-	-	66,816	1,174,025	-	1,240,841
Other liabilities	234,030	26,009	83,284	160,109	185,582	689,014
Total	**860,789**	**421,238**	**1,814,464**	**5,885,029**	**9,699,996**	**18,681,516**

Bank Dec 31, 2017	Up to 1 month HRK '000	1 - 3 months HRK '000	3 months to 1 year HRK '000	1 - 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
Financial liabilities						
Deposits from customers	251,822	187	171,291	211,134	10,307	644,741
Borrowings	197,142	283,160	1,358,672	4,292,634	10,758,724	16,890,332
Debt securities issued	-	-	67,623	1,253,036	-	1,320,659
Other liabilities	185,299	21,082	76,872	144,072	165,326	592,651
Total	**634,263**	**304,429**	**1,674,458**	**5,900,876**	**10,934,357**	**19,448,383**

26. Risk management (continued)

26.5. Market risk

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

26.5.1. Interest rate risk in the Bank's book

The following tables demonstrate the sensitivity of the Group to interest rates risk as of 30 September 2018 and 31 December 2017 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 2018 and 31 December 2017 which may not be indicative for the positions in other periods.

Group **Sep 30, 2018**	**Up to 1 month** **HRK '000**	**1 to 3 months** **HRK '000**	**3 months to 1 year** **HRK '000**	**1 to 3 years** **HRK '000**	**Over 3 years** **HRK '000**	**Non-interest bearing** **HRK '000**	**Total** **HRK '000**	**Fixed interest rate** **HRK '000**
Assets								
Cash on hand and current accounts with banks	535,593	-	-	-	-	618,816	1,154,409	535,593
Deposits with other banks	-	-	-	-	-	-	-	-
Loans to financial institutions	624,604	598,299	1,191,921	2,613,546	5,023,703	23,136	10,075,209	9,724,381
Loans to other customers	2,345,928	930,113	976,674	1,684,600	6,070,993	137,696	12,146,004	10,996,335
Financial assets at fair value through profit or loss	-	-	-	-	2,466	640,563	643,029	2,466
Financial assets at fair value through other comprehensive income	2,944,643	-	-	-	-	34,480	2,979,123	2,944,643
Debt instruments at amortised cost	-	-	-	-	1,355	18	1,373	1,355
Property, plant and equipment and intangible assets	-	-	-	-	-	51,230	51,230	-
Non-current assets held for sale	-	-	-	-	-	25,034	25,034	-
Other assets	-	-	-	-	-	15,612	15,612	-
Total assets	**6,450,768**	**1,528,412**	**2,168,595**	**4,298,146**	**11,098,517**	**1,546,585**	**27,091,023**	**24,204,773**

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26. Risk management (continued)

26.5. Market risk (continued)

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

Group Sep 30, 2018	Up to 1 month HRK '000	1 to 3 months HRK '000	3 months to 1 year HRK '000	1 to 3 years HRK '000	Over 3 years HRK '000	Non-interest bearing HRK '000	Total HRK '000	Fixed interest rate HRK '000
Liabilities								
Deposits from customers	12,806	-	-	-	-	199,714	212,520	12,806
Borrowings	620,501	352,905	1,411,485	3,911,276	8,711,851	73,561	15,081,579	14,848,109
Debt securities issued	-	-	-	1,107,209	-	26,543	1,133,752	1,107,209
Other liabilities	-	-	-	-	-	703,422	703,422	-
Total liabilities	**633,307**	**352,905**	**1,411,485**	**5,018,485**	**8,711,851**	**1,003,240**	**17,131,273**	**15,968,124**
Interest rate gap	**5,817,461**	**1,175,507**	**757,110**	**(720,339)**	**2,386,666**	**543,345**	**9,959,750**	**8,236,649**

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26. Risk management (continued)

26.5. Market risk (continued)

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

Group Dec 31, 2017	Up to 1 month HRK '000	1 to 3 months HRK '000	3 months to 1 year HRK '000	1 to 3 years HRK '000	Over 3 years HRK '000	Non-interest bearing HRK '000	Total HRK '000
Assets							
Cash on hand and current accounts with banks	2,534	-	-	-	-	1,401,146	1,403,680
Deposits with other banks	29,114	-	-	-	-	24	29,138
Loans to financial institutions	474,348	733,865	1,345,038	2,759,113	5,496,436	27,341	10,836,141
Loans to other customers	2,104,487	745,415	927,758	1,848,681	6,689,547	67,735	12,383,623
Financial assets at fair value through profit or loss	-	-	-	-	-	291	291
Assets available for sale	2,473,578	-	-	-	-	847,986	3,321,564
Assets held to maturity	-	-	-	-	1,385	14	1,399
Property, plant and equipment and intangible assets	-	-	-	-	-	53,557	53,557
Non-current assets held for sale	-	-	-	-	-	16,697	16,697
Other assets	-	-	-	-	-	29,471	29,471
Total assets	**5,084,061**	**1,479,280**	**2,272,796**	**4,607,794**	**12,187,368**	**2,444,262**	**28,075,561**
Liabilities							
Deposits from customers	150,273	-	169,057	169,057	-	156,354	644,741
Borrowings	168,310	243,414	1,155,999	3,853,447	9,902,974	63,737	15,387,881
Debt securities issued	-	-	-	1,117,790	-	43,909	1,161,699
Other liabilities	-	-	-	-	-	605,453	605,453
Total liabilities	**318,583**	**243,414**	**1,325,056**	**5,140,294**	**9,902,974**	**869,453**	**17,799,774**
Interest rate gap	**4,765,478**	**1,235,866**	**947,740**	**(532,500)**	**2,284,394**	**1,574,809**	**10,275,787**

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26. Risk management (continued)

26.5. Market risk (continued)

26.5.1. 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 2018 and 31 December 2017 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 2018 and 31 December 2017 which may not be indicative for the positions in other periods.

Bank Sep 30, 2018	Up to 1 month HRK '000	1 to 3 months HRK '000	3 months to 1 year HRK '000	1 to 3 years HRK '000	Over 3 years HRK '000	Non-interest bearing HRK '000	Total HRK '000	Fixed interest rate HRK '000
Assets								
Cash on hand and current accounts with banks	521,576	-	-	-	-	618,816	1,140,392	521,576
Deposits with other banks	-	-	-	-	-	-	-	-
Loans to financial institutions	624,604	598,299	1,191,921	2,613,546	5,023,703	23,136	10,075,209	9,724,381
Loans to other customers	2,345,928	930,113	976,674	1,684,600	6,070,993	137,696	12,146,004	10,996,335
Financial assets at fair value through profit or loss	-	-	-	-	2,466	634,114	636,580	2,466
Financial assets at fair value through other comprehensive income	2,910,559	-	-	-	-	34,174	2,944,733	2,910,559
Investments in subsidiaries	-	-	-	-	-	36,124	36,124	-
Property, plant and equipment and intangible assets	-	-	-	-	-	51,152	51,152	-
Non-current assets held for sale	-	-	-	-	-	25,034	25,034	-
Other assets	-	-	-	-	-	13,628	13,628	-
Total assets	**6,402,667**	**1,528,412**	**2,168,595**	**4,298,146**	**11,097,162**	**1,573,874**	**27,068,856**	**24,155,317**

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26. Risk management (continued)

26.5. Market risk (continued)

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

Bank Sep 30, 2018	Up to 1 month HRK '000	1 to 3 months HRK '000	3 months to 1 year HRK '000	1 to 3 years HRK '000	Over 3 years HRK '000	Non-interest bearing HRK '000	Total HRK '000	Fixed interest rate HRK '000
Liabilities								
Deposits from customers	12,806	-	-	-	-	199,714	212,520	12,806
Borrowings	620,501	352,905	1,411,485	3,911,276	8,711,851	73,561	15,081,579	14,848,109
Debt securities issued	-	-	-	1,107,209	-	26,543	1,133,752	1,107,209
Other liabilities	-	-	-	-	-	689,014	689,014	-
Total liabilities	**633,307**	**352,905**	**1,411,485**	**5,018,485**	**8,711,851**	**988,832**	**17,116,865**	**15,968,124**
Interest rate gap	**5,769,360**	**1,175,507**	**757,110**	**(720,339)**	**2,385,311**	**585,042**	**9,951,991**	**8,187,193**

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26. Risk management (continued)

26.5. Market risk (continued)

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

Bank Dec 31, 2017	Up to 1 month HRK '000	1 to 3 months HRK '000	3 months to 1 year HRK '000	1 to 3 years HRK '000	Over 3 years HRK '000	Non-interest bearing HRK '000	Total HRK '000
Assets							
Cash on hand and current accounts with banks	-	-	-	-	-	1,401,146	1,401,146
Deposits with other banks	29,114	-	-	-	-	24	29,138
Loans to financial institutions	474,348	733,865	1,345,038	2,759,113	5,496,436	27,341	10,836,141
Loans to other customers	2,104,487	745,415	927,758	1,848,681	6,689,547	67,735	12,383,623
Assets available for sale	2,430,262	-	-	-	-	846,932	3,277,194
Investments in subsidiaries	-	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	-	53,514	53,514
Non-current assets held for sale	-	-	-	-	-	16,697	16,697
Other assets	-	-	-	-	-	22,226	22,226
Total assets	**5,038,211**	**1,479,280**	**2,272,796**	**4,607,794**	**12,185,983**	**2,471,739**	**28,055,803**
Liabilities							
Deposits from customers	150,273	-	169,057	169,057	-	156,354	644,741
Borrowings	168,310	243,414	1,155,999	3,853,447	9,902,974	63,737	15,387,881
Debt securities issued	-	-	-	1,117,790	-	43,909	1,161,699
Other liabilities	-	-	-	-	-	592,651	592,651
Total liabilities	**318,583**	**243,414**	**1,325,056**	**5,140,294**	**9,902,974**	**856,651**	**17,786,972**
Interest rate gap	**4,719,628**	**1,235,866**	**947,740**	**(532,500)**	**2,283,009**	**1,615,088**	**10,268,831**

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26. Risk management (continued)

26.5. Market risk (continued)

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

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

	Group		Bank	
	Sep 30, 2018	**Dec 31, 2017**	**Sep 30, 2018**	**Dec 31, 2017**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Assets				
Fixed interest rate assets	24,204,773	24,358,274	24,155,317	24,311,039
Variable interest rate assets	1,339,665	1,273,025	1,339,665	1,273,025
Non-interest bearing	1,546,585	2,444,262	1,573,874	2,471,739
Total assets	**27,091,023**	**28,075,561**	**27,068,856**	**28,055,803**
Liabilities				
Fixed interest rate liabilities	15,968,124	16,440,995	15,968,124	16,440,995
Variable interest rate liabilities	159,909	489,326	159,909	489,326
Non-interest bearing	1,003,240	869,453	988,832	856,651
Total liabilities	**17,131,273**	**17,799,774**	**17,116,865**	**17,786,972**

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26. Risk management (continued)

26.5. Market risk (continued)

26.5.1. 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. Sep 30, 2018	Effect on profit Sep 30, 2018 HRK '000	Increase in b.p. Dec 31, 2017	Effect on profit Dec 31, 2017 HRK '000
EUR	+1	69	+1	93
USD	+14	557	+10	349

Currency	Decrease in b.p. Sep 30, 2018	Effect on profit Sep 30, 2018 HRK '000	Decrease in b.p. Dec 31, 2017	Effect on profit Dec 31, 2017 HRK '000
EUR	-1	(69)	-1	(93)
USD	-14	(557)	-10	(349)

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26. Risk management (continued)

26.5. Market risk (continued)

26.5.2. Currency risk

Total assets and total liabilities as of 30 September 2018 and 31 December 2017 in HRK and foreign currencies can be shown as follows:

Group Sep 30, 2018	USD HRK '000	EUR HRK '000	Other foreign currencies HRK '000	Total foreign currencies HRK '000	HRK HRK '000	Total HRK '000
Assets						
Cash on hand and current accounts with banks	11,281	508,826	1,469	521,576	632,833	1,154,409
Deposits with other banks	-	-	-	-	-	-
Loans to financial institutions	-	5,385,174	-	5,385,174	4,690,035	10,075,209
Loans to other customers	711,387	8,606,716	-	9,318,103	2,827,901	12,146,004
Financial assets at fair value through profit or loss	-	49,328	-	49,328	593,701	643,029
Financial assets at fair value through other comprehensive income	-	623,376	-	623,376	2,355,747	2,979,123
Debt instruments at amortised cost	-	1,373	-	1,373		1,373
Property, plant and equipment and intangible assets	-	-	-	-	51,230	51,230
Non-current assets held for sale	-	-	-	-	25,034	25,034
Other assets	-	628	-	628	14,984	15,612
Total assets	**722,668**	**15,175,421**	**1,469**	**15,899,558**	**11,191,465***	**27,091,023**
Liabilities						
Deposits from customers	33,142	35,153	83	68,378	144,142	212,520
Borrowings	737,671	14,343,908	-	15,081,579	-	15,081,579
Debt securities issued	-	1,133,752	-	1,133,752	-	1,133,752
Other liabilities	54,508	123,321	939	178,768	524,654	703,422
Total liabilities	**825,321**	**15,636,134**	**1,022**	**16,462,477**	**668,796**	**17,131,273**
Currency gap	**(102,653)**	**(460,713)**	**447**	**(562,919)**	**10,522,669**	**9,959,750**

**Amounts linked to a one-way currency clause represent HRK 111,217 thousand.*

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26. Risk management (continued)

26.5. Market risk (continued)

26.5.2. Currency risk (continued)

Group Dec 31, 2017	USD HRK '000	EUR HRK '000	Other foreign currencies HRK '000	Total foreign currencies HRK '000	HRK HRK '000	Total HRK '000
Assets						
Cash on hand and current accounts with banks	239	82,947	1,424	84,610	1,319,070	1,403,680
Deposits with other banks	29,115	23	-	29,138	-	29,138
Loans to financial institutions	-	6,075,420	-	6,075,420	4,760,721	10,836,141
Loans to other customers	429,298	9,092,613	-	9,521,911	2,861,712	12,383,623
Financial assets at fair value through profit or loss	-	291	-	291	-	291
Assets available for sale	-	735,821	-	735,821	2,585,743	3,321,564
Assets held to maturity	-	1,399	-	1,399	-	1,399
Property, plant and equipment and intangible assets	-	-	-	-	53,557	53,557
Non-current assets held for sale	-	-	-	-	16,697	16,697
Other assets	-	6,308	-	6,308	23,163	29,471
Total assets	**458,652**	**15,994,822**	**1,424**	**16,454,898**	**11,620,663***	**28,075,561**
Liabilities						
Deposits from customers	20,112	527,668	77	547,857	96,884	644,741
Borrowings	410,011	14,977,870	-	15,387,881	-	15,387,881
Debt securities issued	-	1,161,699	-	1,161,699	-	1,161,699
Other liabilities	3,291	18,222	2,665	24,178	581,275	605,453
Total liabilities	**433,414**	**16,685,459**	**2,742**	**17,121,615**	**678,159**	**17,799,774**
Currency gap	**25,238**	**(690,637)**	**(1,318)****	**(666,717)**	**10,942,504**	**10,275,787**

**Amounts linked to a one-way currency clause represent HRK 157,325 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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26. Risk management (continued)

26.5. Market risk (continued)

26.5.2. Currency risk (continued)

Total assets and total liabilities as of 30 September 2018 and 31 December 2017 in HRK and foreign currencies can be shown as follows:

Bank **Sep 30, 2018**	**USD**	**EUR**	**Other foreign currencies**	**Total foreign currencies**	**HRK**	**Total**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Assets						
Cash on hand and current accounts with banks	11,281	508,826	1,469	521,576	618,816	1,140,392
Deposits with other banks	-	-	-	-	-	-
Loans to financial institutions	-	5,385,174	-	5,385,174	4,690,035	10,075,209
Loans to other customers	711,387	8,606,716	-	9,318,103	2,827,901	12,146,004
Financial assets at fair value through profit or loss	-	46,996	-	46,996	589,584	636,580
Financial assets at fair value through other comprehensive income	-	612,522	-	612,522	2,332,211	2,944,733
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	51,152	51,152
Non-current assets held for sale	-	-	-	-	25,034	25,034
Other assets	-	113	-	113	13,515	13,628
Total assets	**722,668**	**15,160,347**	**1,469**	**15,884,484**	**11,184,372***	**27,068,856**
Liabilities						
Deposits from customers	33,142	35,153	83	68,378	144,142	212,520
Borrowings	737,671	14,343,908	-	15,081,579	-	15,081,579
Debt securities issued	-	1,133,752	-	1,133,752	-	1,133,752
Other liabilities	54,294	115,187	900	170,381	518,633	689,014
Total liabilities	**825,107**	**15,628,000**	**983**	**16,454,090**	**662,775**	**17,116,865**
Currency gap	**(102,439)**	**(467,653)**	**486**	**(569,606)**	**10,521,597**	**9,951,991**

** Amounts linked to a one-way currency clause represent HRK 111,217 thousand.*

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26. Risk management (continued)

26.5. Market risk (continued)

26.5.2. Currency risk (continued)

Bank Dec 31, 2017	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets						
Cash on hand and current accounts with banks	239	82,947	1,424	84,610	1,316,536	1,401,146
Deposits with other banks	29,115	23	-	29,138	-	29,138
Loans to financial institutions	-	6,075,420	-	6,075,420	4,760,721	10,836,141
Loans to other customers	429,298	9,092,613	-	9,521,911	2,861,712	12,383,623
Assets available for sale	-	724,243	-	724,243	2,552,951	3,277,194
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	53,514	53,514
Non-current assets held for sale	-	-	-	-	16,697	16,697
Other assets	-	488	-	488	21,738	22,226
Total assets	**458,652**	**15,975,734**	**1,424**	**16,435,810**	**11,619,993***	**28,055,803**
Liabilities						
Deposits from customers	20,112	527,668	77	547,857	96,884	644,741
Borrowings	410,011	14,977,870	-	15,387,881	-	15,387,881
Debt securities issued	-	1,161,699	-	1,161,699	-	1,161,699
Other liabilities	3,054	10,696	2,611	16,361	576,290	592,651
Total liabilities	**433,177**	**16,677,933**	**2,688**	**17,113,798**	**673,174**	**17,786,972**
Currency gap	**25,475**	**(702,199)**	**(1,264)****	**(677,988)**	**10,946,819**	**10,268,831**

**Amounts linked to a one-way currency clause represent HRK 157,325 thousand.*
***Reported gap is a result of provisions made for issued foreign currency guarantees in other foreign currencies stated under "Other liabilities".*

26. Risk management (continued)

26.5. Market risk (continued)

26.5.2. 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 2018.

Volatility of the exchange rate EUR/HRK, determined using the standard deviation method on the changes of the foreign exchange rate EUR/HRK, equaled 2.03% 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 Sep 30, 2018 %	Effect on profit Sep 30, 2018 HRK' 000	Change in currency rate Dec 31, 2017 %	Effect on profit Jan 1 to Dec 31, 2017 HRK' 000
EUR	+2.03	(4,833)	+1.56	(190)
EUR	-2.03	6,241	-1.56	1,697

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27. Fair value of financial assets and financial liabilities

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.

27 Fair value of financial assets and financial liabilities (continued)

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

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.

The fair value of bonds issued by HBOR is presented by using level 2 inputs that are observable at Bloomberg service on the basis of mid-rate of Bloomberg Generic (BGN) prices and as of September 30, 2018, is disclosed in Note 22.

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.

27. Fair value of financial assets and financial liabilities (continued)

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

Below is a breakdown of the financial assets at fair value based on IFRS 9 classification.

Group			Sep 30, 2018
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
Financial assets at fair value through profit or loss:			
Loans at FVPL:			
Mezzanine loans	-	-	2,466
Investments in investment funds:			
Investments in investment funds at fair value through profit or loss	640,402	-	-
Equity instruments:			
Listed equity instruments:			
Investments in corporate shares	-	-	-
Unlisted equity instruments:			
Investments in corporate shares	-	-	-
Investment in financial institutions shares	-	161	-
Total financial assets at fair value through profit or loss	**640,402**	**161**	**2,466**
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	1,128,380	-	-
Corporate bonds	770	-	-
Treasury bills of the Ministry of Finance	1,814,961	-	-
Accrued interest	8,533	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	532
Accrued interest	-	-	216
Total debt instruments	**2,952,644**	-	**748**
Unlisted equity instruments:			
Investment in shares of legal entities	-	38	-
Shares of foreign financial institutions – EIF	-	25,693	-
Total equity instruments	-	**25,731**	-
Total financial assets at fair value through other comprehensive income	**2,952,644**	**25,731**	**748**

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.

There were no transfers between the levels in the reporting period.

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27. Fair value of financial assets and financial liabilities (continued)

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

Below we give an overview of investments in financial instruments as at 31 December 2017, pursuant to IAS 39 that have been reallocated to Financial assets at fair value through other comprehensive income and Financial assets at fair value through profit and loss according to IFRS 9:

Group			Dec 31, 2017
	Level 1	**Level 2**	**Level 3**
	HRK '000	**HRK '000**	**HRK '000**
Financial assets at fair value through profit or loss:			
Shares in investment funds	291	-	-
Total financial assets at fair value through profit or loss	**291**	**-**	**-**
Assets available for sale:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	884,763	-	-
Financial institution bonds	-	-	-
Corporate bonds	770	-	-
Treasury bills of the Ministry of Finance	1,583,313	-	-
Accrued interest	13,836	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	522
Accrued interest	-	-	167
Total debt instruments	**2,482,682**	**-**	**689**
Equity instruments:			
Listed equity instruments:			
Corporate shares	18,951	-	-
Unlisted equity instruments:			
Investment in shares of foreign companies	-	35	-
Investment in financial institutions shares	-	161	-
Shares of foreign financial institutions – EIF	-	25,427	-
Corporate shares	-	-	-
Total equity instruments	**18,951**	**25,623**	**-**
Investments in investment funds:			
Shares classified as assets available for sale	793,619	-	-
Total investments in investment funds	**793,619**	**-**	**-**
Total assets available for sale	**3,295,252**	**25,623**	**689**

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27. Fair value of financial assets and financial liabilities (continued)

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

Bank

			Sep 30, 2018
	Level 1	Level 2	Level 1
	HRK '000	HRK '000	HRK '000
Financial assets at fair value through profit or loss:			
Loans at FVPL:			
Mezzanine loans	-	-	2,466
Investments in investment funds:			
Investments in investment funds at fair value through profit or loss	633,953	-	-
Equity instruments:			
Listed equity instruments:			
Investments in companies' shares	-	-	-
Unlisted equity instruments:			
Investments in companies' shares	-	-	-
Investment in financial institutions shares	-	161	-
Total financial assets at fair value through profit or loss	**633,953**	**161**	**2,466**
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	1,095,066	-	-
Treasury bills of the Ministry of Finance	1,814,961	-	-
Accrued interest	8,227	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	532
Accrued interest	-	-	216
Total debt instruments	**2,918,254**	**-**	**748**
Unlisted equity instruments:			
Investment in shares of legal entities	-	38	-
Shares of foreign financial institutions – EIF	-	25,693	-
Total equity instruments	**-**	**25,731**	**-**
Total financial assets at fair value through other comprehensive income	**2,918,254**	**25,731**	**748**

27. Fair value of financial assets and financial liabilities (continued)

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

Below we give an overview of investments in financial instruments as at 31 December 2017, pursuant to IAS 39 that have been reallocated to Financial assets at fair value through other comprehensive income and Financial assets at fair value through profit and loss according to IFRS 9:

Bank			Dec 31, 2017
	Level 1	Level 2	Level 3
	HRK '000	HRK '000	HRK '000
Assets available for sale:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	846,428	-	-
Treasury bills of the Ministry of finance	1,583,313	-	-
Accrued interest	13,269	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	522
Accrued interest	-	-	167
Total debt instruments	**2,443,010**	**-**	**689**
Equity instruments:			
Listed equity instruments:			
Corporate shares	18,951	-	-
Unlisted equity instruments:			
Investment in shares of foreign companies	-	35	-
Investment in financial institutions shares	-	161	-
Shares of foreign financial institutions – EIF	-	25,427	-
Corporate shares	-	-	-
Total equity instruments	**18,951**	**25,623**	
Investments in investment funds:			
Shares classified as assets available for sale	788,921	-	-
Total investments in investment funds	**788,921**	**-**	**-**
Total assets available for sale	**3,250,882**	**25,623**	**689**

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27. Fair value of financial assets and financial liabilities (continued)

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

27.1.1. Stage 3 - fair value

a) Technique of valuation of corporate bonds that are allocated to Stage 3

For the assessment of fair value of illiquid corporate bonds in the HBOR portfolio, the method of discounted cash flow of bonds is used. The fair value of bonds is the current value of all future cash flows of bonds calculated by applying the discount rate defined as yield on risk-free investments increased by the premium of specific credit risk for the respective bond and the premium for bond liquidity risk.

The discount rate on risk-free investments is calculated as linearly interpolated/extrapolated yield of Croatian bonds of the same duration and of the same foreign currency as the bonds valued. The source of information on the yields on bonds of the Republic of Croatia is the Bloomberg information system.

The premium of the specific risk amount for the respective bond depends on HBOR's internal credit rating of the bond issuer, i.e. if the issuer is a member of a business group, the risk premium depends on internal credit rating of the parent company.

b) Sensitivity analysis of corporate bond with the stated potential effect on profit/loss as at 28 September 2018, under the assumption of a change in discount rate of 2% and 10%

Under the assumption that the market interest rates change by 2% compared with those in effect as at 28 September 2018, the impacts would be as follows:

a) In the case of a decrease in market yield on no-risk investment (linearly interpolated/extrapolated yield on bonds of the Republic of Croatia of the same duration and the same currency as the respective bond) by 2%, the discount rate would equal 12.148%, the bond price would be 36.40%, which would result in an increase in HBOR's generated profits of HRK 17.18 thousand.

b) In the case of an increase in market yield on no-risk investment (linearly interpolated/extrapolated yield on bonds of the Republic of Croatia of the same duration and the same currency as the corporate bond) by 2%, the discount rate would equal 16.148%, the bond price would be 34.18%, which would result in a decrease in HBOR's generated profits of HRK 16.28 thousand.

The change in interest rates defined in the "Decision on the Management of Interest Rate Risk in the Bank Book", which is applied when calculating standard interest rate shock, is used as the basis for the change in the market interest rate of 2% compared with the market terms and conditions in effect as at 28 September 2018. (Standard interest rate shock is a parallel positive or negative change in interest rates on a reference yield curve of 200 basis points by applying the lower limit rate of 0%, except for the cases in which negative interest rate can be achieved.")

In the case of a decrease in expected cash flows on corporate bonds of 10%, the generated profit of HBOR would decrease by HRK 53.15 thousand.

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27. Fair value of financial assets and financial liabilities (continued)

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

27.1.1. Stage 3 - fair value (continued)

c) Adjustment of fair value of Stage 3:

The fair value of Stage 3 financial assets measured at fair value upon initial recognition – unlisted debt securities*:

		Group		Bank
	Sep 30, 2018 HRK '000	Sep 30, 2017 HRK '000	Sep 30, 2018 HRK '000	Sep 30, 2017 HRK '000
Balance as at 1 January	**689**	**601**	**689**	**601**
Increase in fair value through other comprehensive income	28	22	28	22
Net foreign exchange	(18)	(12)	(18)	(12)
Accrued interest	49	51	49	51
Balance as of 30 September	**748**	**662**	**748**	**662**

** Debt securities – corporate bonds, until 1 January 2018, classified as Assets available for sale in accordance with IAS 39; and since 1 January 2018, classified as Financial assets at fair value through other comprehensive income in accordance with IFRS 9.*

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28. 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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28. Reporting by segments (continued)

Sep 30, 2018	**Banking activities**	**Insurance activities**	**Other activities**	**Unallocated**	**Total**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Net interest income	307,096	1,056	-	-	308,152
Net fee income	31,355	735	872	-	32,962
Net income/(expenses) from financial operations	7,204	(248)	1	-	6,957
Net premiums earned	-	4,949	-	-	4,949
Other income	5,958	64	219	(216)	6,025
Income from operating activities	**351,613**	**6,556**	**1,092**	**(216)**	**359,045**
Operating costs	(119,470)	(4,100)	(891)	216	(124,245)
Impairment loss and provisions	(134,431)	(91)	41	-	(134,481)
Expenses for insured cases	-	(553)	-	-	(553)
Net change in provisions	-	(833)	-	-	(833)
Other expenses	-	(250)	-	-	(250)
Operating expenses	**(253,901)**	**(5,827)**	**(850)**	**216**	**(260,362)**
Profit/(loss) before income tax	**97,712**	**729**	**242**	**-**	**98,683**
Income tax	-	-	-	-	-
Profit for the period	**97,712**	**729**	**242**	**-**	**98,683**
Assets of segment	27,068,856	57,524	1,295	(36,652)	27,091,023
Total assets	**27,068,856**	**57,524**	**1,295**	**(36,652)**	**27,091,023**
Liabilities of segment	17,116,865	14,352	82	(26)	17,131,273
Total equity	9,951,991	5,673	912	1,174	9,959,750
Total liabilities and total equity	**27,068,856**	**20,025**	**994**	**1,148**	**27,091,023**

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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28. Reporting by segments (continued)

Sep 30, 2017	**Banking activities**	**Insurance activities**	**Other activities**	**Unallocated**	**Total**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
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 period	**175,511**	**834**	**195**	**1**	**176,541**
Dec 31, 2017					
Assets of segment	28,055,803	55,213	1,201	(36,656)	28,075,561
Total assets	**28,055,803**	**55,213**	**1,201**	**(36,656)**	**28,075,561**
Liabilities of segment	17,786,972	12,680	152	(30)	17,799,774
Total equity	10,268,831	5,033	749	1,174	10,275,787
Total liabilities and total equity	**28,055,803**	**17,713**	**901**	**1,144**	**28,075,561**

Intra-group transactions are presented under "Unallocated".

29. Capital management

The primary objectives of the Group'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 Group has identified own funds as a manageable capital category.

Regulatory capital has 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.

Regulatory capital is comprised of core capital minus debit items.

The Group 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.

Since 1 January 2018, the Group has calculated regulatory capital and capital requirements in accordance with Basel II requirements, whereas, until 31 December 2017, this was calculated in accordance with Basel I requirements. By the calculation in accordance with Basel II regulations, the capital adequacy ratio has been reduced, and below is a breakdown of capital adequacy ratio as at 30 September 2018 and 31 December 2017.

	Unaudited	Unaudited	Unaudited	Unaudited
		Group		Bank
	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000
Total regulatory capital	9,717,997	10,487,346	9,717,047	10,485,928
Credit risk weighted exposure amount	15,932,833	n/a	15,923,639	n/a
Initial credit requirements for operating risk	903,952	n/a	884,450	n/a
Initial capital requirements for currency risk	256,401	n/a	244,950	n/a
Credit Risk weighted assets	n/a	16,159,625	n/a	16,183,382
Capital requirements for currency risk	n/a	129,933	n/a	113,018
Total capital requirements	**17,093,186**	**16,289,558**	**17,053,039**	**16,296,400**
	%	%	%	%
Capital adequacy ratio	**56.85**	**64.38**	**56.98**	**64.35**
	HRK '000	HRK '000	HRK '000	HRK '000
Own funds needed for ensuring capital adequacy according to regulatory requirements	**1,367,455**	**1,303,165**	**1,364,243**	**1,303,712**

Minimum capital adequacy ratio as of the reporting date, i.e. 30 September 2018 was 8% (31 December 2017.: 8%).

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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, 2018 HRK '000	Sep 30, 2017 HRK '000
Premium earned		
Gross premium written	7,671	7,762
Premium impairment allowance originated and reserved on collection	(32)	(88)
Gross outward reinsurance premium	(3,156)	(3,001)
Net premium written	**4,483**	**4,673**
Changes in the gross unearned premium reserve	156	834
Changes in the gross unearned premium reserve, reinsurer's share	278	(573)
Net premium earned	**4,917**	**4,934**
Fee and commission income	1,607	1,749
Net investment income	925	1,119
Other operating income	67	47
Net income	**7,516**	**7,849**
Gross expense for returned premiums	(463)	(329)
Reinsurer's share in premium return	213	119
Gross reserve for returned premiums	(81)	(284)
Reinsurer's share in reserves	36	99
Net expense and reserve for returned premiums	**(295)**	**(395)**
Claims incurred	(592)	(208)
Claims incurred, reinsurer's share	39	59
Change in the claims provision	(1,480)	(3,459)
Change in the claims provision, share of reinsurance	692	1,795
Net claims incurred	**(1,341)**	**(1,813)**
Marketing and provision expenses	(668)	(251)
Administrative expenses	(4,069)	(4,325)
Other operating expenses	(80)	(38)
Net exchange differences other than those on financial instruments	(83)	3
Profit before income tax	**980**	**1,030**
Income tax	-	-
Profit/(loss) for the period	**980**	**1,030**
Other comprehensive income		
Items that are not transferred subsequently to profit or loss:		
Deferred tax – adjustment for previous period	(16)	-
Total items that are not transferred subsequently to profit or loss	**(16)**	**-**
Items that may be reclassified subsequently to profit or loss:		
Gains on revaluation of financial assets available for sale	912	1,969
Decrease in the fair value of financial assets available for sale	(698)	(1,189)
Transfer of realised gains on asset available for sale to statement of profit or loss	-	(1)
Transfer of realised losses on asset available for sale to statement of profit or loss	-	6
Deferred tax	(37)	(140)
Total items that may be reclassified subsequently to profit or loss	**177**	**645**
Other comprehensive income after income tax	**161**	**645**
Total comprehensive income after income tax	**1,141**	**1,675**
Attributable to:		
Equity holders of the parent	1,141	1,675

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

	Sep 30, 2018 HRK '000	Dec 31, 2017 HRK '000
Assets		
Non-current assets		
Property and equipment	58	41
Intangible assets	20	2
Held to maturity investments	1,375	1,399
Deferred tax	315	231
Total non-current assets	**1,768**	**1,673**
Current assets		
Investments available for sale	40,547	44,370
Investments at fair value through profit or loss	292	291
Deposits with banks	-	-
Receivables from insurance operations	1,418	6,631
Other receivables	258	385
Cash and cash equivalents	14,017	2,534
Total current assets	**56,532**	**54,211**
Total assets	**58,300**	**55,884**
Equity and liabilities		
Equity		
Share capital	37,500	37,500
Accumulated losses	2,237	1,167
Other reserves	3,176	2,999
Profit for the year	980	1,417
Total equity	**43,893**	**43,083**
Technical provisions		
Gross technical provisions	23,387	16,726
Technical provisions, reinsurer's share	(13,696)	(7,873)
	9,691	**8,853**
Current liabilities		
Liabilities from insurance operations	2,306	1,183
Other liabilities	2,410	2,765
Total liabilities	**4,716**	**3,948**
Total equity and liabilities	**58,300**	**55,884**

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Appendix - financial performance of the HKO Group (continued)
Statement of Cash Flows
for the period 1 January – 30 September (unaudited)

(All amounts are expressed in HRK thousand)

	Sep 30, 2018 HRK '000	Sep 30, 2017 HRK '000
Operating activities		
Profit before income tax	980	1,030
Adjustments to reconcile to net cash from and used in operating activities:		
Depreciation	35	46
Impairment gain/(loss) and provisions	74	28
Income tax	-	-
Accrued interest	257	114
Operating profit before working capital changes	*1,346*	*1,218*
Changes in operating assets and liabilities:		
Net realised (gain) on assets available for sale	-	5
Decrease of discount in assets available for sale and assets held to maturity	172	319
Net (losses) on financial assets at fair value through profit or loss	(4)	(4)
Premium receivables	5,327	(356)
Net (increase)/decrease in other assets	(46)	1,639
Net decrease/(increase) of assets and liabilities from insurance operations	1,123	(3)
Net increase in technical provisions	398	1,588
Net (decrease) in other liabilities	(398)	37
Net cash provided/(used in) by operating activities	**7,918**	**4,443**
Investment activities		
Net (purchase) of assets available for sale	(1,500)	(6,590)
Net sale of assets available for sale	5,000	3,744
Net (purchase) of property, plant and equipment and intangible assets	(70)	(10)
Net cash provided/(used in) investment activities	**3,430**	**(2,856)**
Effect of foreign currency to cash and cash equivalents		
Net foreign exchange	135	148
Net effect	**135**	**148**
Net increase in cash and cash equivalents	11,483	1,735
Balance as of 1 January	2,534	551
Net increase in cash and cash equivalents	11,483	1,735
Balance as of 30 September	**14,017**	**2,286**

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Appendix - financial performance of the HKO Group (continued)
Statement of Changes in Equity
for the period 1 January – 30 September (unaudited)

(All amounts are expressed in HRK thousand)

	Share capital HRK '000	Accumulated losses HRK '000	Other reserves HRK '000	Profit/(loss) for the period HRK '000	Total equity attributable to the equity holders of the Company HRK '000	Total equity HRK '000
Balance as of 1 January 2017	**37,500**	**(148)**	**2,188**	**1,315**	**40,855**	**40,855**
Profit for the period	-	-	-	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**
Balance as of 1 January 2018	**37,500**	**1,167**	**2,999**	**1,417**	**43,083**	**43,083**
Profit for the period	-	-	-	980	**980**	**980**
Other comprehensive income	-	-	177	-	**177**	**177**
Total comprehensive income	-	-	177	980	**1,157**	**1,157**
Balance adjustment of 1 January 2018	-	-	-	(347)	**(347)**	**(347)**
Transfer of profit 2017 to retained earnings	-	1,070	-	(1,070)	-	-
Balance as of 30 September 2018	**37,500**	**2,237**	**3,176**	**980**	**43,893**	**43,893**

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