

CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

The Condensed Separate and Consolidated Interim Financial Statements for the Period 1 January – 30 June 2019

Zagreb, August 2019

This version of the Condensed Separate and Consolidated Interim Financial Statements is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the Condensed Separate and Consolidated Interim Financial Statements takes precedence over translation.

Contents

	Page
Responsibilities of the Management and Supervisory Boards for the preparation and approval of the condensed separate and consolidated interim financial statements	3
Independent auditor's report to the owner of Croatian Bank for Reconstruction and Development	4
Condensed Consolidated Interim Financial Statements of the Group:	11
Income statement	11
Statement of Profit or Loss and Other Comprehensive Income	12
Statement of Financial Position	13
Statement of Cash Flows	14
Statement of Changes in Equity	15
Condensed Separate Interim Financial Statements of the Bank:	16
Income statement	16
Statement of Profit or Loss and Other Comprehensive Income	17
Statement of Financial Position	18
Statement of Cash Flows	19
Statement of Changes in Equity	20
Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations	21-130
Appendix - Financial Performance of the HKO Group	131-134

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 June 2019

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 11 to 134 have been prepared in accordance with International Accounting Standard 34: “Interim Financial Reporting” applicable for the preparation of interim financial statements, and present fairly 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 11 to 134 have been approved by the Management Board on 20 August 2019 as confirmed by the signatures below.

For and on behalf of Croatian Bank for Reconstruction and Development:



Vedran Jakšić, MSc
Senior Executive Director



Marin Pranjić
Accounting Division Executive Director



Tamara Perko, MSc
President of the Management Board





Hrvoje Čuvalo, MSc
Member of the Management Board

Zagreb, 20 August 2019



Independent Auditors' Report to the owner of Croatian Bank for Reconstruction and Development

Report on the Audit of the Condensed Separate and Consolidated Interim Financial Statements

Opinion

We have audited the condensed separate financial statements of Croatian Bank for Reconstruction and Development ("the Bank") and condensed consolidated financial statements of the Bank and its subsidiaries ("the Group"), which comprise respective separate and consolidated statements of financial position as at 30 June 2019, and their respective separate and consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity for the six-month period then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the condensed financial statements").

In our opinion, the accompanying condensed financial statements of the Bank and the Group, as at 30 June 2019 and for the six-month period then ended, are prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

Basis for Opinion

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

This version of our audit report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation



Independent Auditors' Report to the owner of Croatian Bank for Reconstruction and Development (*continued*)

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the condensed interim financial statements of the current period. These matters were addressed in the context of our audit of the condensed interim financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans to other customers

As at 30 June 2019, in the interim condensed financial statements, gross loans to other customers amounted to: HRK 16,799 million, related impairment allowance: HRK 3,597 million and impairment loss recognised in the income statement for the six-month period then ended: HRK 218 million (31 December 2018: gross loans to other customers: HRK 15,891 million, impairment allowance: HRK 3,380 million: release of impairment loss recognised in the income statement for the six-month period ended 30 June 2018: HRK 129 million).

Please refer to note 4 Summary of significant accounting policies, note 8 Impairment loss and provisions, note 12 Loans to other customers, and credit risk section of the note 25 Risk management).

Key audit matter

Loss allowances represent the Management Board's best estimate of the expected credit losses ("ECL") within the loans to other customers at the reporting date. We focused on this area as the determination of loss allowances requires a significant judgment over both the timing of recognition and the amounts of any such impairment.

Impairment allowances for performing exposures (Stage 1 and Stage 2) and non-performing exposures (Stage 3) up to HRK 1.5 million individually are determined by modelling techniques ("collective impairment allowance"). Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgment are incorporated into the model assumptions.

For non-performing exposures exceeding HRK 1.5 million individually, the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. Related loss allowances are determined on an individual basis by means of a discounted cash flows analysis.

How our audit addressed the matter

Our audit procedures in this area included, among others:

- Inspecting the Bank's and the Group's impairment provisioning methodology and assessing its compliance with the relevant requirements of the financial reporting standards;
- Inquiring of the risk management and information technology (IT) personnel to obtain an understanding of the provisioning process, IT applications used therein, key data sources and assumptions for data used in the ECL model. Also, assessing and testing of IT control environment for data security and access, assisted by our own IT specialists;
- Assessing and testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the identification of loss events and default, appropriateness of the classification of exposures into performing and non-performing and their segmentation into homogenous groups, calculation of days past due, collateral valuations and calculation of the loss allowances;

This version of our audit report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation



Independent Auditors' Report to the owner of Croatian Bank for Reconstruction and Development (*continued*)

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

Key Audit Matters (*continued*)

Key audit matter	How our audit addressed the matter
For the above reasons, impairment of loans to other customers was considered by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered the area to be our key audit matter.	<ul style="list-style-type: none">On a sample basis, assessing and recalculating PD ("probability of default"), LGD ("loss given default"), EAD ("exposure at default") and ECL parameters and agreeing them to those used in the ECL calculations by the Bank, referred to below; <p>For loss allowances calculated individually:</p> <ul style="list-style-type: none">Selecting a sample of individual exposures, with focus on those with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk, such as watchlisted, restructured or rescheduled exposures, loans to clients operating in higher risk industries, non-performing exposures with low provision coverage and loans with significant change in the provision coverage;For the sample selected, critically assessing, by reference to the underlying documentation (loan files) and through inquiries of the Bank's loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 30 June 2019;For those loans where triggers for classification in Stage 2 were identified, developing an independent estimate of the related ECL by using ECL parameters for Stage 2 exposures as determined by the Bank and as tested by us on a sample basis;For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Bank's estimates of future cash flows used in the impairment calculation, such as discount rates, collateral values and realization period, and performing an independent loan loss assessment, where relevant, with the assistance of our own valuation specialists.

This version of our audit report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation



Independent Auditors' Report to the owner of Croatian Bank for Reconstruction and Development (*continued*)

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

Key Audit Matters (*continued*)

Key audit matter	How our audit addressed the matter
	<p>For loss allowances calculated on a collective basis:</p> <ul style="list-style-type: none">– Obtaining the relevant forward looking information and macroeconomic forecasts used in the Bank's ECL estimate. Independently assessing the information by means of corroborating inquiries of the credit risk management and inspecting publicly available information;– For a sample of underlying exposures, agreeing EAD data on exposures back to contractual data;– Challenging LGD and PD parameters, assessed as significant, by performing back-testing of historical default rates and by reference to historical realized losses on defaults;– For a sample of exposures, assessing the appropriateness of the staging;– For a sample of exposures, testing the application of the ECL parameters as prescribed by the impairment methodology by agreeing the actual used parameters to those provided in the impairment methodology. <p>For loss allowances in general:</p> <ul style="list-style-type: none">• Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposure in total gross exposure, and the non-performing loans provision coverage;• Evaluating the accuracy and completeness of the related financial statement disclosures.

This version of our audit report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation



Independent Auditors' Report to the owner of Croatian Bank for Reconstruction and Development (*continued*)

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

Responsibilities of Management and Those Charged with Governance for the Condensed Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Condensed Financial Statements

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

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

- Identify and assess the risks of material misstatement of the condensed financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and/or the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

This version of our audit report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.



Independent Auditors' Report to the owner of Croatian Bank for Reconstruction and Development (continued)

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

Auditors' Responsibilities for the Audit of the Condensed Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and/or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the condensed financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the condensed financial statements, including the disclosures, and whether the condensed financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the condensed financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

This version of our audit report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation



Independent Auditors' Report to the owner of Croatian Bank for Reconstruction and Development (continued)

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 14 March 2018 to audit the condensed financial statements of the Bank and the Group for the six-month period ended 30 June 2019. Our total uninterrupted period of engagement is 1 year, covering the periods ending 30 June 2018 to 30 June 2019.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank dated 20 August 2019;
- for the period to which our statutory audit relates, we have not provided any non-audit services (NASs), hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

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

K P M G Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb

20 August 2019


Katarina Kecko
Director, Croatian Certified Auditor

This version of our audit report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation

Condensed Consolidated Interim Financial Statements of the Group
Income Statement
for the period 1 January – 30 June

(All amounts are expressed in HRK thousand)

	Notes	2019		2018	
		Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000
Interest income calculated using the effective interest method	5	158,683	321,983	190,152	381,034
Interest expense	6	(78,746)	(160,508)	(84,890)	(169,293)
Net interest income		79,937	161,475	105,262	211,741
Fee and commission income		6,713	14,497	12,267	24,986
Fee and commission expense		(1,512)	(1,883)	(1,681)	(2,145)
Net fee and commission income		5,201	12,614	10,586	22,841
Net gains/(losses) on financial operations		6,379	9,927	5,289	18,389
Other income		4,387	7,140	4,978	7,841
		95,904	191,156	126,115	260,812
Employee expenses	7 a)	(23,555)	(46,936)	(23,187)	(45,398)
Depreciation and amortization	7 b)	(1,845)	(3,712)	(1,583)	(3,320)
Other expenses	7 c)	(20,282)	(32,627)	(17,203)	(26,772)
Impairment loss and provisions	8	5,767	(30,248)	36,907	10,721
Profit before income tax		55,989	77,633	121,049	196,043
Income tax		(70)	(103)	-	-
Profit for the period		55,919	77,530	121,049	196,043
Attributable to:					
Owner of the Bank		55,919	77,530	121,049	196,043

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

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

(All amounts are expressed in HRK thousand)

	2019		2018	
	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000
Profit for the period	55,919	77,530	121,049	196,043
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:				
Net changes in financial assets at fair value through other comprehensive income	6,841	17,782	(4,733)	(748)
Net foreign exchange on equity instruments	(112)	(86)	(180)	(457)
Deferred tax – other comprehensive income	(121)	(237)	42	(13)
Total items that may be reclassified subsequently to profit or loss	6,608	17,459	(4,871)	(1,218)
Other comprehensive income after income tax	6,608	17,459	(4,871)	(1,234)
Total comprehensive income after income tax	62,527	94,989	116,178	194,809
Attributable to:				
Owner of the Bank	62,527	94,989	116,178	194,809

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

Condensed Consolidated Interim Financial Statements of the Group
Statement of Financial Position
as of

(All amounts are expressed in HRK thousand)

	Notes	Jun 30, 2019 HRK '000	Dec 31, 2018 HRK '000
Assets			
Cash on hand and current accounts with banks	9	851,119	944,417
Deposits with other banks	10	331,310	261,925
Loans to financial institutions	11	10,337,393	10,234,988
Loans to other customers	12	13,201,374	12,510,686
Financial assets at fair value through profit or loss	13	338,096	336,266
Financial assets at fair value through other comprehensive income	14	1,716,653	2,829,470
Debt instruments at amortised cost	15	1,352	1,363
Investments in associates		-	-
Property, plant and equipment and intangible assets		48,694	50,832
Foreclosed assets	16	27,418	25,330
Other assets	17	25,135	23,704
Total assets		26,878,544	27,218,981
Liabilities			
Deposits from customers	18	1,009,506	429,096
Borrowings	19	14,079,301	14,877,987
Debt securities issued	20	1,115,203	1,150,557
Provisions for guarantees, commitments and other liabilities	21	137,685	321,491
Other liabilities	22	355,793	378,743
Total liabilities		16,697,488	17,157,874
Equity			
Founder's capital		7,084,632	7,059,632
Retained earnings and reserves		2,921,855	2,717,118
Other reserves		84,933	67,474
Profit for the period		77,530	204,737
Guarantee fund		12,106	12,146
Total equity		10,181,056	10,061,107
Total liabilities and total equity		26,878,544	27,218,981

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

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

(All amounts are expressed in HRK thousand)

	Notes	2019 HRK '000	2018 HRK '000
Operating activities			
Profit before income tax		77,633	196,043
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Income tax		(103)	-
Depreciation and amortization		3,712	3,320
Impairment loss and provisions		30,550	(10,721)
Accrued interest		(73,995)	(42,474)
Deferred fees		(1,006)	(19,646)
Other changes in assets at fair value		(2,024)	7,693
<i>Operating profit before working capital changes</i>		34,767	134,215
<i>Changes in operating assets and liabilities:</i>			
Net (increase)/decrease in deposits with other banks, before impairment		(69,803)	14,894
Net (increase)/decrease in loans to financial institutions, before impairment		(52,325)	931,414
Net increase in loans to other customers, before loss impairment		(908,991)	(329,518)
Net decrease of discount in debt instruments at amortised cost and debt securities issued		1,883	1,901
Net increase in foreclosed assets		(2,183)	(8,268)
Net increase in other assets, before impairment		(4,218)	(1,584)
Net increase/(decrease) in deposits from banks and companies		580,410	(467,037)
Net decrease in other liabilities		(23,518)	(52,553)
Net cash (used in)/provided from operating activities		(443,978)	223,464
Investment activities			
Purchase of financial assets at fair value through profit or loss		-	(1,500)
Sale of financial assets at fair value through profit or loss		-	150,450
Other changes in financial assets at fair value through profit or loss		(67)	3
Purchase of financial assets at fair value through other comprehensive income		(487,141)	(1,439,166)
Sale of financial assets at fair value through other comprehensive income		1,616,397	835,000
Net purchase of property, plant and equipment and intangible assets		(1,245)	(1,705)
Net cash provided from/(used in) investment activities		1,127,944	(456,918)
Financing activities			
Increase in founder's capital		25,000	-
Increase in borrowings – withdrawn funds		1,576,108	1,435,724
Decrease in borrowings – repayments of principal		(2,336,476)	(1,501,702)
Other		3	-
Net cash used in from financing activities		(735,365)	(65,978)
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		(42,770)	(286,883)
Net effect		(42,770)	(286,883)
Net decrease in cash and cash equivalents		(94,169)	(586,315)
Balance as of 1 January, before impairment		946,085	1,404,538
Net decrease in cash and cash equivalents		(94,169)	(586,315)
Balance as of 30 June, before impairment	9	851,916	818,223
Additional note - Operational cash flows			
Interest paid		189,667	201,043
Interest received		248,463	310,324

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

Condensed Consolidated Interim Financial Statements of the Group
Statement of Changes in Equity
for the period 1 January - 30 June

(All amounts are expressed in HRK thousand)

	Founder's capital HRK '000	Retained earnings and reserves HRK '000	Other reserves HRK '000	Net profit for the period HRK '000	Guarantee fund HRK '000	Total HRK '000
Balance as at 1 January 2018	7,009,632	2,554,917	70,717	162,201	12,303	9,809,770
Profit for the period	-	-	-	196,043	-	196,043
Other comprehensive income	-	-	(1,234)	-	-	(1,234)
Total comprehensive income	-	-	(1,234)	196,043	-	194,809
Net foreign exchange – Guarantee fund	-	-	-	-	(220)	(220)
Transfer of profit 2017 to retained earnings	-	162,201	-	(162,201)	-	-
Balance as at 30 June 2018	7,009,632	2,717,118	69,483	196,043	12,083	10,004,359
Balance as at 1 January 2019	7,059,632	2,717,118	67,474	204,737	12,146	10,061,107
Profit for the period	-	-	-	77,530	-	77,530
Other comprehensive income	-	-	17,459	-	-	17,459
Total comprehensive income	-	-	17,459	77,530	-	94,989
Net foreign exchange – Guarantee fund	-	-	-	-	(40)	(40)
Capital paid-in from the State Budget	25,000	-	-	-	-	25,000
Transfer of profit 2018 to retained earnings	-	204,737	-	(204,737)	-	-
Balance as at 30 June 2019	7,084,632	2,921,855	84,933	77,530	12,106	10,181,056

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

Condensed Separate Interim Financial Statements of the Bank
Income Statement
for the period 1 January - 30 June
(All amounts are expressed in HRK thousand)

	Notes	2019		2018	
		Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000
Interest income calculated using the effective interest method	5	158,351	321,322	189,809	380,302
Interest expense	6	(78,745)	(160,505)	(84,890)	(169,293)
Net interest income		79,606	160,817	104,919	211,009
Fee and commission income		6,002	13,089	11,652	23,865
Fee and commission expense		(1,512)	(1,883)	(1,681)	(2,145)
Net fee and commission income		4,490	11,206	9,971	21,720
Net gains/(losses) on financial operations		6,343	9,758	5,476	18,692
Other income		2,961	4,221	3,339	4,574
		93,400	186,002	123,705	255,995
Employee expenses	7 a)	(22,601)	(45,093)	(22,366)	(43,802)
Depreciation and amortization	7 b)	(1,836)	(3,695)	(1,570)	(3,298)
Other expenses	7 c)	(18,669)	(29,605)	(16,077)	(24,686)
Impairment loss and provisions	8	5,502	(30,550)	36,851	10,724
Profit before income tax		55,796	77,059	120,543	194,933
Income tax		-	-	-	-
Profit for the period		55,796	77,059	120,543	194,933
Attributable to:					
Owner of the Bank		55,796	77,059	120,543	194,933

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

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

(All amounts are expressed in HRK thousand)

	2019		2018	
	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000
Profit for the period	55,796	77,059	120,543	194,933
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Net changes in financial assets at fair value through other comprehensive income	6,380	16,674	(4,502)	(818)
Net foreign exchange on equity instruments	(112)	(86)	(180)	(457)
Total items that may be reclassified subsequently to profit or loss	6,268	16,588	(4,682)	(1,275)
Other comprehensive income after income tax	6,268	16,588	(4,682)	(1,275)
Total comprehensive income after income tax	62,064	93,647	115,861	193,658
Attributable to:				
Owner of the Bank	62,064	93,647	115,861	193,658

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

Condensed Separate Interim Financial Statements of the Bank
Statement of Financial Position
as of

(All amounts are expressed in HRK thousand)

	Notes	Jun 30, 2019 HRK '000	Dec 31, 2018 HRK '000
Assets			
Cash on hand and current accounts with banks	9	845,960	941,071
Deposits with other banks	10	331,310	261,925
Loans to financial institutions	11	10,337,393	10,234,988
Loans to other customers	12	13,201,374	12,510,686
Financial assets at fair value through profit or loss	13	332,405	330,803
Financial assets at fair value through other comprehensive income	14	1,678,059	2,792,072
Investments in subsidiaries		36,124	36,124
Investments in associates		-	-
Property, plant and equipment and intangible assets		48,529	50,764
Foreclosed assets	16	27,418	25,330
Other assets	17	16,275	15,164
Total assets		26,854,847	27,198,927
Liabilities			
Deposits from customers	18	1,009,506	429,096
Borrowings	19	14,079,301	14,877,987
Debt securities issued	20	1,115,203	1,150,557
Provisions for guarantees, commitments and other liabilities	21	137,576	321,361
Other liabilities	22	340,642	365,914
Total liabilities		16,682,228	17,144,915
Equity			
Founder's capital		7,084,632	7,059,632
Retained earnings and reserves		2,919,356	2,715,028
Other reserves		79,466	62,878
Profit for the period		77,059	204,328
Guarantee fund		12,106	12,146
Total equity		10,172,619	10,054,012
Total liabilities and total equity		26,854,847	27,198,927

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

Condensed Separate Interim Financial Statements of the Bank
Statement of Cash Flows
for the period 1 January - 30 June

(All amounts are expressed in HRK thousand)

	Notes	2019 HRK '000	2018 HRK '000
Operating activities			
Profit before income tax		77,059	194,933
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation and amortization		3,695	3,298
Impairment loss and provisions		30,550	(10,724)
Accrued interest		(73,998)	(42,478)
Deferred fees		(1,006)	(19,646)
Other changes in assets at fair value		(2,115)	7,634
<i>Operating profit before working capital changes</i>		<i>34,185</i>	<i>133,017</i>
<i>Changes in operating assets and liabilities:</i>			
Net (increase)/decrease in deposits with other banks, before impairment		(69,803)	14,894
Net (increase)/decrease in loans to financial institutions, before impairment		(52,325)	931,414
Net increase in loans to other customers, before impairment		(908,991)	(329,518)
Decrease of discount in debt securities issued		1,875	1,901
Net increase in foreclosed assets		(2,183)	(8,268)
Net increase in other assets, before impairment		(3,955)	(6,651)
Net increase/(decrease) in deposits from banks and companies		580,410	(467,037)
Net decrease in other liabilities		(25,272)	(53,008)
Net cash (used in)/provided from operating activities		(446,059)	216,744
Investment activities			
Sale of financial assets at fair value through profit or loss		-	150,450
Other changes in financial assets at fair value through profit or loss		161	-
Purchase of financial assets fair value through other comprehensive income		(487,141)	(1,439,166)
Sale of financial assets fair value through other comprehensive income		1,616,397	835,000
Net purchase of property, plant and equipment and intangible assets		(1,130)	(1,635)
Net cash provided from/(used in) investment activities		1,128,287	(455,351)
Financing activities			
Increase in founder's capital		25,000	-
Increase in borrowings – withdrawn funds		1,576,108	1,435,724
Decrease in borrowings – repayments of principle		(2,336,476)	(1,501,702)
Other		3	-
Net cash used in from financing activities		(735,365)	(65,978)
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		(42,836)	(287,078)
Net effect		(42,836)	(287,078)
Net decrease in cash and cash equivalents		(95,973)	(591,663)
Balance as of 1 January, before impairment		942,722	1,402,004
Net decrease in cash and cash equivalents		(95,973)	(591,663)
Balance as at 30 June, before impairment	9	846,749	810,341
Additional note – operating activities			
Interest paid		189,667	201,043
Interest received		247,723	309,432

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

Condensed Separate Interim Financial Statements of the Bank
Statement of Changes in Equity
for the period 1 January – 30 June

(All amounts are expressed in HRK thousand)

	Founder's capital HRK '000	Retained earnings and reserves HRK '000	Other reserves HRK '000	Net profit for the period HRK '000	Guarantee fund HRK '000	Total equity HRK '000
Balance as at 1 January 2018	7,009,632	2,554,245	66,207	160,783	12,303	9,803,170
Profit for the period	-	-	-	194,933	-	194,933
Other comprehensive income	-	-	(1,275)	-	-	(1,275)
Total comprehensive income	-	-	(1,275)	194,933	-	193,658
Net foreign exchange – Guarantee fund	-	-	-	-	(220)	(220)
Transfer of profit 2017 to retained earnings	-	160,783	-	(160,783)	-	-
Balance as at 30 June 2018	7,009,632	2,715,028	64,932	194,933	12,083	9,996,608
Balance as at 1 January 2019	7,059,632	2,715,028	62,878	204,328	12,146	10,054,012
Profit for the period	-	-	-	77,059	-	77,059
Other comprehensive income	-	-	16,588	-	-	16,588
Total comprehensive income	-	-	16,588	77,059	-	93,647
Net foreign exchange – Guarantee fund	-	-	-	-	(40)	(40)
Capital paid-in from the State Budget	25,000	-	-	-	-	25,000
Transfer of profit 2018 to retained earnings	-	204,328	-	(204,328)	-	-
Balance as at 30 June 2019	7,084,632	2,919,356	79,466	77,059	12,106	10,172,619

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

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019

(All amounts are expressed in HRK thousand)

1. General information

1.1. Group:

The Croatian Bank for Reconstruction and Development („HBOR“ or „the Bank“) is the parent company of the Croatian Bank for Reconstruction and Development Group („Group“) that operates in the Republic of Croatia. The Group primarily performs banking activities and, to the lesser extent, insurance activities and credit risk assessment activities. These Financial Statements include 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 June 2019, the Group had 385 employees (on 30 June 2018: 391 employees).

1.2. Bank:

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

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

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

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

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

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 of the Republic of Croatia 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,
- Saša Đujić, 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.

On 24 July 2019, the Government of the Republic of Croatia made the decision revoking some of the members of HBOR's Supervisory Board from their positions: Ms Gabrijela Žalac and Mr Tomislav Tolušić, who had been, by the decision of the Government of the Republic of Croatia dated 17 July 2019, revoked from their positions as the Minister of Regional Development and EU Funds and as the Deputy Prime Minister of the Republic of Croatia and the Minister of Agriculture.

On 19 July 2019, Mr Zdravko Marić, DSc, Minister of Finance, was appointed Deputy Prime Minister of the Republic of Croatia by the decision of the Government of the Republic of Croatia. Consequently, by the decision of the Government of the Republic of Croatia of 24 July 2019, he was revoked from his position as the President of the Supervisory Board of HBOR as the Minister of Finance and was appointed President of the Supervisory Board of HBOR as the Deputy Prime Minister of the Republic of Croatia and the Minister of Finance by the decision on the appointment of the President of the Supervisory Board of HBOR of 24 July 2019.

By the Decision on the appointment of some of the members of HBOR's Supervisory Board of 24 July 2019, Mr Marko Pavić, MSc, Minister of Regional Development and EU Funds, was appointed ex-officio member of the Supervisory Board of HBOR and Ms Marija Vučković, MSc, Minister of Agriculture, was appointed member of the Supervisory Board of HBOR.

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 June 2019, HBOR had 365 employees (30 June 2018: 372 employees).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

1. General information (continued)

1.2. Bank (continued):

Audit Committee

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

- Prof. DSc. Lajoš Žager, 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.

1.2.1. 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

2. Basis of Preparation of the Condensed Interim Financial Statements

2.1. Statement of compliance

The Condensed Interim Financial Statements of the Bank and HBOR Group for the period 1 January to 30 June 2019 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 June 2019 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 2018.

Changes in significant accounting policies are described in Note 4.1.

2.2. Measurement

The financial statements are prepared on the fair value basis for financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortised or historical cost.

The financial statements are prepared on an accrual and a going concern basis.

2.3. Functional and presentation currency

These financial statements of the Bank and the Group are presented in Croatian Kuna (HRK), which is the Bank's and Group's functional currency. All amounts have been rounded to the nearest thousand, except when otherwise indicated.

3. Use of judgements 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 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 accounting estimates and judgements relating to the application of IFRS 16 Leases and changes in accounting policies for Property, plant and equipment and intangible assets, which are described in Note 4.1.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies

4.1. Changes in the accounting policies

IFRS 16 Leases

Since 1 January 2019, the Group has applied the International Standard of Financial Reporting (IFRS) 16 Leases. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Group applied a simplified approach as at 1 January 2019, and the future minimum lease payments of the Group on irrevocable operating leases amounted to HRK 2,258 thousand, on a discounted basis, recognized as lease liabilities and in the same amount of property with right of use.

These assets are stated in Note 17. Other assets, and liabilities for leases are stated in Note 22. Other liabilities, due to immaterial amount.

Change in accounting policy for Property, plant and equipment and intangible assets

Since 1 January 2019, the Group has amended the Accounting Policies and has changed the depreciation and amortisation rates pursuant to the provisions of the Income Tax Act.

The effect of the changed depreciation and amortisation rates at the annual level stands at HRK 1,113 thousand.

Comparative review of useful life and depreciation rates for 2019 and 2018:

		2019		2018
	Useful life expressed in years	Annual depreciation rates	Useful life expressed in years	Annual depreciation rates
Buildings	20	5%	33	3.03%
Computers	2	50%	3	33.3%
Furniture and Equipment	4	25%	5 - 8	20%; 12.5%
Vehicles	5	20%	3	33.3%
Other assets and investments not mentioned	10	10%	5	20%
Intangible Assets	4	25%	3 - 5	33.3%; 20%

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 2019 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

5. Interest income calculated using the effective interest method

Interest income by borrowers:

	Group				Bank			
	2019		2018		2019		2018	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Public sector	24,165	47,933	31,811	56,155	23,833	47,272	31,469	55,424
State-owned companies	9,292	18,080	3,744	16,285	9,292	18,080	3,744	16,285
Foreign companies	10,627	21,284	4,820	9,430	10,627	21,284	4,820	9,430
Domestic companies	67,837	134,720	83,663	169,283	67,837	134,720	83,663	169,283
Domestic financial institutions	39,039	80,361	55,750	110,254	39,039	80,361	55,749	110,253
Foreign financial institutions	171	461	94	407	171	461	94	407
Penalty interest	2,785	9,211	3,712	5,680	2,785	9,211	3,712	5,680
Other	4,767	9,933	6,558	13,540	4,767	9,933	6,558	13,540
	158,683	321,983	190,152	381,034	158,351	321,322	189,809	380,302

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

5. Interest income calculated using the effective interest method (continued)

Interest income by type of facility:

	2019		2018		2019		2018	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Interest on loans								
- financial institutions	39,051	80,367	55,974	110,486	39,051	80,367	55,974	110,486
- other customers	111,770	225,759	125,580	252,889	111,770	225,759	125,580	252,889
	150,821	306,126	181,554	363,375	150,821	306,126	181,554	363,375
Investments in securities	7,681	15,375	8,498	17,245	7,349	14,714	8,155	16,513
- Bonds of the Republic of Croatia	7,525	14,954	7,554	15,075	7,204	14,315	7,223	14,366
- Corporate bonds	28	56	29	57	17	34	17	34
- Treasury bills of the Ministry of Finance	128	365	915	2,113	128	365	915	2,113
Deposits	181	482	100	414	181	482	100	414
	158,683	321,983	190,152	381,034	158,351	321,322	189,809	380,302

The main 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 recognized in profit or loss on a time basis during the repayment of the loan. Interest income earned on this basis for the period 1 January to 30 June 2019 amounts to HRK 25,975 thousand (1 January to 30 June 2018: HRK 37,565 thousand).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

6. Interest expense

Interest expense by type of payee:

	Group				Bank			
	2019		2018		2019		2018	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Domestic financial institutions	1,468	3,657	1,017	1,260	1,468	3,657	1,017	1,260
Foreign financial institutions	77,263	156,818	83,873	168,033	77,263	156,818	83,873	168,033
Other	15	33	-	-	14	30	-	-
	78,746	160,508	84,890	169,293	78,745	160,505	84,890	169,293

Interest expense by type of facility:

	Group				Bank			
	2019		2018		2019		2018	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Borrowings	61,111	125,182	67,378	134,388	61,111	125,182	67,378	134,388
Debt securities	17,573	35,007	17,508	34,892	17,573	35,007	17,508	34,892
Deposits	47	286	4	13	47	286	4	13
Leases – interest expenses on long term contracts	15	33	-	-	14	30	-	-
	78,746	160,508	84,890	169,293	78,745	160,505	84,890	169,293

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

7. Operating expenses

Operating expenses can be shown as follows:

	2019		2018		2019		2018	
	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000
7 a) Employee expenses	23,555	46,936	23,187	45,398	22,601	45,093	22,366	43,802
7 b) Depreciation	1,845	3,712	1,583	3,320	1,836	3,695	1,570	3,298
7 c) Other expenses	20,282	32,627	17,203	26,772	18,669	29,605	16,077	24,686
Of which:								
<i>Administration expenses</i>	11,089	13,924	7,658	9,653	10,975	13,715	7,582	9,518
<i>Material and services</i>	7,259	13,456	7,462	12,887	6,882	12,680	7,125	12,158
<i>Other expenses</i>	1,934	5,247	2,083	4,232	812	3,210	1,370	3,010
	45,682	83,275	41,973	75,490	43,106	78,393	40,013	71,786

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

7. Operating expenses (continued)

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

	2019		Group 2018		2019		Bank 2018	
	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000
Change in the claims provision	(1,085)	756	741	595	-	-	-	-
Change in the claims provision, reinsurer's share	1,507	158	(327)	(254)	-	-	-	-
Expenses of insurance operations	422	914	414	341	-	-	-	-

Loss provisions as at 30 June 2019 consisted of reported and unreported losses in the approximate proportion 50:50. In the first half year of 2019, provisions did not significantly change compared to the end of 2018 (a increase of 5%) . The Bornhuetter-Ferguson method was used for gross provisions for unreported losses, and for reported losses, the amount was taken according to actual data on loss incurred. The reinsurance share was determined in accordance with the valid terms and conditions of the reinsurance contract.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

8. Impairment loss and provisions

The provision for impairment losses/(gains) on placements may be summarized as follows:

a) Impairment loss and provisions on financial instruments in accordance with IFRS 9

	Group				Bank			
	2019		2018		2019		2018	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30 HRK '000	January 1 – June 30 HRK '000	April 1 – June 30 HRK '000	January 1 – June 30 HRK '000	April 1 – June 30 HRK '000	January 1 – June 30 HRK '000	April 1 – June 30 HRK '000	January 1 – June 30 HRK '000
Impairment losses on cash on hand and due from financial institutions	(170)	(871)	5	(9)	(160)	(862)	5	(9)
Impairment losses on deposits with other banks	635	433	(1)	(140)	635	433	(1)	(140)
Impairment losses on loans to financial institutions	(32,372)	(40,696)	(8,761)	(14,500)	(32,372)	(40,696)	(8,761)	(14,500)
Impairment losses on loans to other customers and interest	109,692	217,510	(99,699)	(129,144)	109,692	217,510	(99,699)	(129,144)
Modification loss/(gain) – financial institutions	710	7,127	(302)	2,224	710	7,127	(302)	2,224
Modification (gain)/loss – other customers	(1,394)	12,347	(520)	(1,044)	(1,394)	12,347	(520)	(1,044)
POCI assets – fair value adjustment at initial recognition	7,500	19,019	8,282	24,797	7,500	19,019	8,282	24,797
Impairment of financial assets at fair value through other comprehensive income	(1,884)	(3,434)	415	1,182	(1,655)	(3,208)	415	1,182
Impairment losses on Debt instruments at amortised cost	(1)	(1)	-	-	-	-	-	-
Impairment losses on other assets	2,458	2,468	7,200	11,854	2,463	2,514	7,245	11,840
Provisions for commitments	(19,480)	(24,768)	73,337	66,500	(19,480)	(24,768)	73,337	66,500
Provision for guarantees	(68,032)	(155,365)	538	44,787	(68,032)	(155,365)	538	44,787
Total	(2,338)	33,769	(19,506)	6,507	(2,093)	34,051	(19,461)	6,493

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

8. Impairment loss and provisions (continued)

b) Other impairment losses and provisions

	Group				Bank			
	2019		2018		2019		2018	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Impairment losses on foreclosed assets	-	95	(44)	(50)	-	95	(44)	(50)
Provision for other liabilities	(3,429)	(3,616)	(17,357)	(17,178)	(3,409)	(3,596)	(17,346)	(17,167)
Total	(3,429)	(3,521)	(17,401)	(17,228)	(3,409)	(3,501)	(17,390)	(17,217)
Total	(5,767)	30,248	(36,907)	(10,721)	(5,502)	30,550	(36,851)	(10,724)

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

9. Cash on hand current accounts with banks

	Group		Bank	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
	HRK 000	HRK 000	HRK 000	HRK 000
Account with the Croatian National Bank	815,959	921,278	815,958	921,278
Cash on hand	4	2	4	2
Foreign currency account - domestic banks	3,384	6,232	3,381	6,231
Foreign currency account - foreign banks	29,520	18,129	27,406	15,211
Domestic currency account - domestic banks	3,049	444	-	-
	851,916	946,085	846,749	942,722
Loss allowances	(797)	(1,668)	(789)	(1,651)
	851,119	944,417	845,960	941,071

The following tables set out information about the credit quality of financial assets measured at amortised cost. The amounts in the tables represent gross carrying amounts:

30 June 2019	Group							Bank
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
Gross amount	851,912	-	-	851,912	846,745	-	-	846,745
Loss allowances	(797)	-	-	(797)	(789)	-	-	(789)
Balance as of 30 June 2019	851,115	-	-	851,115	845,956	-	-	845,956

31 December 2018	Group							Bank
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
Gross amount	946,083	-	-	946,083	942,720	-	-	942,720
Loss allowances	(1,668)	-	-	(1,668)	(1,651)	-	-	(1,651)
Balance as of 31 December 2018	944,415	-	-	944,415	941,069	-	-	941,069

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

9. Cash on hand and current accounts with banks (continued)

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

	Group		Bank	
	Jan 1 – Jun 30, 2019	Jan 1 - Dec 31, 2018	Jan 1 –Jun 30, 2019	Jan 1 - Dec 31, 2018
	HRK 000	HRK 000	HRK 000	HRK 000
Balance as of 1 January	1,668	41	1,651	41
Net (decrease)/increase of loss allowances on amounts due from banks	(871)	1,625	(862)	1,608
<i>Total recognised through Income Statement (Note 8)</i>	<i>(871)</i>	<i>1,625</i>	<i>(862)</i>	<i>1,608</i>
Net foreign exchange gains on loss allowances	-	2	-	2
Balance at the end of the reporting period	797	1,668	789	1,651

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

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

10. Deposits with other banks

	Group		Bank	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
	HRK '000	HRK '000	HRK '000	HRK '000
Deposits with foreign banks	370	-	370	-
Deposits with domestic banks	332,713	263,283	332,713	263,283
Accrued interest	18	3	18	3
	333,101	263,286	333,101	263,286
Loss allowances	(1,791)	(1,361)	(1,791)	(1,361)
	331,310	261,925	331,310	261,925

The following tables set out information about the credit quality of financial assets measured at amortised cost. The amounts in the tables represent gross carrying amounts:

30 June 2019	Stage 1	Stage 2	Stage 3	Group Total	Stage 1	Stage 2	Stage 3	Bank Total
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
Gross amount	333,101	-	-	333,101	333,101	-	-	333,101
Loss allowances	(1,791)	-	-	(1,791)	(1,791)	-	-	(1,791)
Balance as of 30 June 2019	331,310	-	-	331,310	331,310	-	-	331,310

31 December 2018	Stage 1	Stage 2	Stage 3	Group Total	Stage 1	Stage 2	Stage 3	Bank Total
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
Gross amount	263,286	-	-	263,286	263,286	-	-	263,286
Loss allowances	(1,361)	-	-	(1,361)	(1,361)	-	-	(1,361)
Balance as of 31 December 2018	261,925	-	-	261,925	261,925	-	-	261,925

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

10. Deposits with other banks (continued)

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

	Group Jan 1 – Jun 30, 2019 HRK 000	Group Jan 1 - Dec 31, 2018 HRK 000	Bank Jan 1 – Jun 30, 2019 HRK 000	Bank Jan 1 - Dec 31, 2018 HRK 000
Balance as of 1 January	1,361	152	1,361	152
Net increase of loss allowances on deposits with other banks	433	1,216	433	1,216
<i>Total recognised through Income Statement (Note 8)</i>	<i>433</i>	<i>1,216</i>	<i>433</i>	<i>1,216</i>
Net foreign exchange gain on loss allowances	(3)	(7)	(3)	(7)
Balance at the end of the reporting period	1,791	1,361	1,791	1,361

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

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

11. Loans to financial institutions

	30 June 2019 HRK '000	Group and Bank 31 December 2018 HRK '000
Long-term loans under loan programmes	9,656,926	9,695,037
Short-term loans and reverse repo transactions	774,416	691,269
Accrued interest	20,887	7,350
Deferred recognition of loan origination fees	(38,451)	(41,514)
	<u>10,413,778</u>	<u>10,352,142</u>
Loss allowances	<u>(76,385)</u>	<u>(117,154)</u>
	<u>10,337,393</u>	<u>10,234,988</u>

The following tables set out information about the credit quality of financial assets measured at amortised cost. The amounts in the tables represent gross carrying amounts:

30 June 2019	Group and Bank			
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Total HRK 000
Gross amount	10,256,892	119,081	37,805	10,413,778
Loss allowances	(47,009)	(14,459)	(14,917)	(76,385)
Balance as of 30 June 2019	<u>10,209,883</u>	<u>104,622</u>	<u>22,888</u>	<u>10,337,393</u>

31 December 2018	Group and Bank			
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Total HRK 000
Gross amount	10,142,966	158,678	50,498	10,352,142
Loss allowances	(78,126)	(20,941)	(18,087)	(117,154)
Balance as of 31 December 2018	<u>10,064,840</u>	<u>137,737</u>	<u>32,411</u>	<u>10,234,988</u>

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

11. Loans to financial institutions (continued)

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

	Group		Bank	
	Jan 1 - Jun 30, 2019	Jan 1 - Dec 31, 2018	Jan 1 - Jun 30, 2019	Jan 1 - Dec 31, 2018
	HRK 000	HRK 000	HRK 000	HRK 000
Balance as of 1 January	117,154	131,020	117,154	131,020
Net decrease of loss allowances on loans to financial institutions	(40,696)	(13,149)	(40,696)	(13,149)
<i>Total recognised through Income Statement (Note 8)</i>	<i>(40,696)</i>	<i>(13,149)</i>	<i>(40,696)</i>	<i>(13,149)</i>
Net foreign exchange losses on loss allowances	(159)	(964)	(159)	(964)
Loss allowances transferred to loans to other customers	(3)	(28)	(3)	(28)
Unwinding – changes due to the lapse of time	89	275	89	275
Balance at the end of the reporting period	76,385	117,154	76,385	117,154

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

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

11. Loans to financial institutions (continued)

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

	30 June 2019 HRK '000	Group and Bank 31 December 2018 HRK '000
Loan programme for reconstruction and development of the economy	1,853,295	1,915,895
Export financing	2,337,549	2,448,494
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	1,211,432	1,130,702
Loan programme for small and medium-sized enterprises	4,247,976	4,192,912
Loan programme for war-torn and demolished housing and business facilities	6,674	7,034
Other	774,416	691,269
Accrued interest	20,887	7,350
Deferred recognition of loan fees	(38,451)	(41,514)
	<u>10,413,778</u>	<u>10,352,142</u>
Loss allowances	(76,385)	(117,154)
	<u>10,337,393</u>	<u>10,234,988</u>

Average interest rates for total loans to financial institutions, at year level, are stated at 0.59% (1 January – 30 June 2018: 0.80%) and are equal to average interest rates for loans under HBOR loan programmes excluding the liquidity reserve.

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

Item "Other" refers to reverse repo agreements in the total amount of HRK 674,416 thousand (31 December 2018: HRK 691,269 thousand). The above placements are collateralized by securities in the amount of HRK 721,244 thousand (31 December 2018: HRK 737,701 thousand).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

12. Loans to other customers

Loans to other customers, impaired for loss allowances, may be summarized by sectors as follows:

	Group and Bank	
	30 June 2019 HRK '000	31 December 2018 HRK '000
Domestic companies	10,538,712	10,252,669
State-owned companies	1,143,046	1,103,711
Public sector	3,584,972	2,995,506
Foreign companies	769,840	787,639
Non-profit institutions	5,902	5,902
Other	571,227	588,164
Accrued interest	276,741	251,405
Deferred recognition of loan origination fees	(91,698)	(94,014)
	<u>16,798,742</u>	<u>15,890,982</u>
Loss allowances	(3,597,368)	(3,380,296)
	<u>13,201,374</u>	<u>12,510,686</u>

The following tables set out information about the credit quality of financial assets measured at amortised cost. The amounts in the tables represent gross carrying amounts:

30 June 2019	Group and Bank				
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	POCI HRK 000	Total HRK 000
Gross amount	10,353,295	1,627,296	4,414,768	403,383	16,798,742
Loss allowances	(314,390)	(617,948)	(2,529,987)	(135,043)	(3,597,368)
Balance as of 30 June 2019	<u>10,038,905</u>	<u>1,009,348</u>	<u>1,884,781</u>	<u>268,340</u>	<u>13,201,374</u>

31 December 2018	Group and Bank				
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	POCI HRK 000	Total HRK 000
Gross amount	9,760,653	1,636,528	4,198,058	295,743	15,890,982
Loss allowances	(351,878)	(494,557)	(2,469,639)	(64,222)	(3,380,296)
Balance as of 31 December 2018	<u>9,408,775</u>	<u>1,141,971</u>	<u>1,728,419</u>	<u>231,521</u>	<u>12,510,686</u>

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

12. Loans to other customers (continued)

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

	Group and Bank	
	Jan 1 - Jun 30, 2019	Jan 1 - Dec 31, 2018
	HRK 000	HRK 000
Balance as of 1 January	3,380,296	3,593,205
Net increase/(release) of loss allowances on loans to other customers and interest	217,510	(211,161)
<i>Total recognised through Income Statement (Note 8)</i>	<u>217,510</u>	<u>(211,161)</u>
Net foreign exchange losses on loss allowances	(4,711)	(15,114)
Write-offs	(10,727)	(43,258)
Write-off due to sale of receivables	(52)	-
Loss allowances transferred from loans to financial institutions	3	28
Unwinding – changes due to the lapse of time	17,625	57,089
Acquisition of immovable property	(2,788)	(989)
Collection of Interest transferred from the off-balance sheet records and other	212	496
Balance at the end of the reporting period	<u>3,597,368</u>	<u>3,380,296</u>

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

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

12. Loans to other customers (continued)

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

	Group and Bank	
	30 June 2019	31 December 2018
	HRK '000	HRK '000
Loan programme for reconstruction and development of the economy	3,541,665	3,588,290
Export financing	5,503,731	5,428,712
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	4,059,299	3,771,861
Loan programme for small and medium-sized enterprises	1,737,269	1,818,620
Other	1,771,735	1,126,108
Accrued interest	276,741	251,405
Deferred recognition of loan origination fees	(91,698)	(94,014)
	<u>16,798,742</u>	<u>15,890,982</u>
Loss allowances	<u>(3,597,368)</u>	<u>(3,380,296)</u>
	<u>13,201,374</u>	<u>12,510,686</u>

Average interest rates on loans to other customers, at year level, are stated at 1.65% (1 January – 30 June 2018: 1.84%).

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

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

13. Financial assets at fair value through profit or loss

	Group		Bank	
	30 June 2019 HRK '000	31 December 2018 HRK '000	30 June 2019 HRK '000	31 December 2018 HRK '000
Loans at FVPL:				
Mezzanine loans	1,692	2,045	1,692	2,045
	1,692	2,045	1,692	2,045
Investments in investment funds:				
Investments in investment funds at FVPL	336,212	334,060	330,521	328,597
	336,212	334,060	330,521	328,597
Unlisted equity instruments:				
Investments in corporate shares	31	-	31	-
Investments in financial institutions' shares	161	161	161	161
	192	161	192	161
	338,096	336,266	332,405	330,803

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 2018: HRK 0 thousand).

The shares of companies not listed on the stock exchange in the amount of HRK 31 thousand (0.03% portion) relate to the shares of the company Helios Faros d.d., in bankruptcy, acquired by HBOR in the reporting period in substitution for a portion of receivables by accepting the company's bankruptcy restructuring plan.

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 2018: HRK 161 thousand).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

14. Financial assets at fair value through other comprehensive income

	Group		Bank	
	30 June 2019 HRK '000	31 December 2018 HRK '000	30 June 2019 HRK '000	31 December 2018 HRK '000
Debt instruments:				
Listed debt instruments:				
Bonds of the Republic of Croatia	1,228,472	1,124,611	1,191,118	1,088,457
Corporate bonds	770	770	-	-
Treasury bills of the Ministry of Finance	449,751	1,666,299	449,751	1,666,299
Accrued interest	10,766	11,313	10,296	10,839
	1,689,759	2,802,993	1,651,165	2,765,595
Unlisted debt instruments:				
Corporate bonds	557	535	557	535
Accrued interest	266	233	266	233
	823	768	823	768
Equity instruments:				
Unlisted equity instruments:				
Investments in shares of foreign legal entities - SWIFT	38	38	38	38
Shares of foreign financial institutions – EIF	26,033	25,671	26,033	25,671
	26,071	25,709	26,071	25,709
	1,716,653	2,829,470	1,678,059	2,792,072

The following tables set out information about the credit quality of financial assets measured at FVOCI. The amounts in the tables represent gross carrying amounts:

30 June 2019	Group				Bank			
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Total HRK 000	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Total HRK 000
Gross amount	1,689,759	-	823	1,690,582	1,651,165	-	823	1,651,988
Balance as of 30 June 2019	1,689,759	-	823	1,690,582	1,651,165	-	823	1,651,988
31 December 2018	Group				Bank			
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Total HRK 000	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Total HRK 000
Gross amount	2,802,223	770	768	2,803,761	2,765,595	-	768	2,766,363
Balance as of 31 December 2018	2,802,223	770	768	2,803,761	2,765,595	-	768	2,766,363

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

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

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

	Group		Bank	
	Jan 1 – Jun 30, 2019 HRK 000	Jan 1 – Dec 31, 2018 HRK 000	Jan 1 - Jun 30, 2019 HRK 000	Jan 1 – Dec 31, 2018 HRK 000
Balance as of 1 January	6,746	4,288	6,459	3,997
Net (release)/increase of loss allowances	(3,434)	2,477	(3,208)	2,481
<i>Total recognised through Income Statement (Note 8)</i>	<i>(3,434)</i>	<i>2,477</i>	<i>(3,208)</i>	<i>2,481</i>
Net foreign exchange losses on loss allowances	(7)	(19)	(7)	(19)
Balance at the end of the reporting period	3,305	6,746	3,244	6,459

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

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

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

The following text contains investment breakdown:

	Date of issue	Date of maturity	Interest rate (%)	30 June 2019 HRK '000	Group 31 December 2018 HRK '000	30 June 2019 HRK '000	Bank 31 December 2018 HRK '000	
Listed debt instruments:								
Debt instruments:								
<i>Bonds of the Republic of Croatia with a currency clause:</i>								
	RHMF-O-19BA	29.11.2004.	29.11.2019.	5.375	100,176	44,711	99,270	43,777
	RHMF-O-227E	22.7.2011.	22.7.2022.	6.5	166,579	169,815	166,579	169,815
	RHMF-O-247E	10.7.2013.	10.7.2024.	5.75	18,213	18,083	12,803	12,728
	RHMF-O-203E	5.3.2010.	5.3.2020.	6.5	778	797	-	-
	RHMF-O222E	5.2.2019.	05.02.22	0.5	14,836	-	14,836	-
<i>Bonds of the Republic of Croatia in foreign currency:</i>								
	XS1117298916	11.3.2015.	11.3.2025.	3.0	59,234	55,867	59,234	55,867
	XS1843434876	19.6.2019.	19.10.2029.	1.125	14,785	-	14,785	-
<i>Bonds of the Republic of Croatia in HRK:</i>								
	RHMF-O-203A	5.3.2010.	5.3.2020.	6.75	34,072	35,074	31,346	32,270
	RHMF-O-257A	9.7.2015.	9.7.2025.	4.5	10,128	9,861	-	-
	RHMF-O-26CA	14.12.2015.	14.12.2026.	4.25	46,851	44,544	37,055	35,261
	RHMF-O-217A	8.7.2016.	8.7.2021.	2.75	229,109	229,636	227,001	227,522
	RHMF-O-222A	7.2.2017.	7.2.2022.	2.25	73,613	73,106	73,613	73,106
	RHMF-O-282A	7.2.2017.	7.2.2028.	2.875	13,565	12,653	11,408	10,641
	RHMF-O-023BA	27.11.2017.	27.11.2023.	1.75	443,188	427,470	443,188	427,470
	RHMF-O-297A	9.7.2018.	9.7.2029.	2.38	3,345	2,994	-	-
<i>Corporate bonds in HRK:</i>								
	JDGL-O-20CA	21.12.2015.	21.12.2020.	5.81	770	770	-	-
	Treasury bills in HRK up to 364 days			0.040-0.135	449,751	1,369,700	449,751	1,369,700
	Treasury bills in foreign currency up to 455 days			0.093	-	296,599	-	296,599
	Accrued interest				10,766	11,313	10,296	10,839
					1,689,759	2,802,993	1,651,165	2,765,595
Unlisted debt instruments:								
<i>Corporate bonds with a currency clause:</i>								
	LNGU-O-31AE	24.7.2015.	15.10.2031.	4.5	557	535	557	535
	Accrued interest				266	233	266	233
					823	768	823	768
Equity instruments:								
<i>Unlisted equity instruments:</i>								
	Investments in shares of foreign legal entities - SWIFT				38	38	38	38
	Investments in shares of foreign financial institutions - EIF				26,033	25,671	26,033	25,671
					26,071	25,709	26,071	25,709
					1,716,653	2,829,470	1,678,059	2,792,072

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

15. Debt instruments at amortised cost

	Group		Bank	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
	HRK '000	HRK '000	HRK '000	HRK '000
Debt instruments:				
Listed debt instruments:				
Bonds of the Republic of Croatia	1,340	1,352	-	-
Accrued interest	13	13	-	-
	<u>1,353</u>	<u>1,365</u>	<u>-</u>	<u>-</u>
Loss allowances	(1)	(2)	-	-
	<u>1,352</u>	<u>1,363</u>	<u>-</u>	<u>-</u>

The following tables set out information about the credit quality of financial assets measured at amortised cost. The amounts in the tables represent gross carrying amounts:

30 June 2019	Group				Bank			
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Total HRK 000	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Total HRK 000
Gross amount	1,353	-	-	1,353	-	-	-	-
Loss allowances	(1)	-	-	(1)	-	-	-	-
Balance as of 30 June 2019	<u>1,352</u>	<u>-</u>	<u>-</u>	<u>1,352</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

31 December 2018	Group				Bank			
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Total HRK 000	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Total HRK 000
Gross amount	1,365	-	-	1,365	-	-	-	-
Loss allowances	(2)	-	-	(2)	-	-	-	-
Balance as of 31 December 2018	<u>1,363</u>	<u>-</u>	<u>-</u>	<u>1,363</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

	Group		Bank	
	Jan 1 - Jun 30, 2019	Jan 1 - Dec 31, 2018	Jan 1 - Jun 30, 2019	Jan 1 - Dec 31, 2018
	HRK '000	HRK '000	HRK '000	HRK '000
Balance as of 1 January	2	2	-	-
Net release of loss allowances on debt instruments at amortised cost	(1)	-	-	-
Balance at the end of the reporting period	<u>1</u>	<u>2</u>	<u>-</u>	<u>-</u>

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 June 2019, the value of these outstanding bonds amounted to HRK 449 thousand (31 December 2018: HRK 454 thousand). 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 June 2019, the value of these outstanding bonds amounted to HRK 891 thousand (31 December 2018: HRK 898 thousand).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

16. Foreclosed assets

	Group		Bank	
	30 June	31 December	30 June	31 December
	2019	2018	2019	2018
	HRK '000	HRK '000	HRK '000	HRK '000
Foreclosed assets, net	27,418	25,330	27,418	25,330
	27,418	25,330	27,418	25,330

In the reporting period 2019, acquisition of property took place with present value in the amount of HRK 1,823 thousand, acquisition value of HRK 5,787 thousand and provisions of HRK 3,964 thousand, and relates to buildings (in 2018, acquisition of property took place with present value in the amount of HRK 8,538 thousand, acquisition value of HRK 10,195 thousand and provisions of HRK 1,657 thousand, and relates to land plot in the amount of HRK 2,286 thousand, acquisition value of HRK 2,584 thousand and provisions of HRK 298 thousand and buildings in the amount of HRK 6,252 thousand, acquisition value of HRK 7,611 thousand and provisions of HRK 1,359 thousand).

Fair value of acquired property as at 30 June 2019 amounted to HRK 5,787 thousand.

In the period 1 January - 30 June 2019 sale of foreclosed assets took place with present value in the amount of HRK 19 thousand, acquisition value of HRK 808 thousand and provisions of HRK 789 thousand, and relates to agricultural land and buildings (in 2018, sale of foreclosed assets took place with present value in the amount of HRK 0 thousand, acquisition value and provisions of HRK 19 thousand, and relates to movable property).

In the reporting period 2019, foreclosed assets were transferred to lease on the item Investments in property in the amount of HRK 1,329 thousand (2018: HRK 1,743 thousand), which is presented under Other assets due to immaterial significance. In 2019, this property was depreciated in the amount of HRK 44 thousand.

The fair value of foreclosed assets at the beginning of the reporting period stood at HRK 38,261 thousand and the end of the reporting period at HRK 43,085 thousand.

Adjustment decrease amount for the Group and the Bank that has an effect on the Statement of Profit or Loss stood at HRK 95 thousand in 2019 (1 January – 30 June 2018: decrease of HRK 50 thousand).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

17. Other assets

	Group		Bank	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
	HRK '000	HRK '000	HRK '000	HRK '000
Fees receivable	28,702	27,161	28,702	27,161
Other receivables	11,687	11,070	11,687	10,904
Prepaid expenses	2,627	3,002	2,530	3,002
Accrued income	6,732	6,437	6,731	6,437
Premium receivables	7,600	7,371	-	-
Receivables for reinsurance commissions	821	867	-	-
Receivables for risk assessment fees	405	371	-	-
Deferred tax assets	36	-	-	-
Leased assets	1,932	-	1,851	-
Other assets	1,197	1,543	1,161	1,543
	61,739	57,822	52,662	49,047
Loss allowances	(36,604)	(34,118)	(36,387)	(33,883)
	25,135	23,704	16,275	15,164

The following tables set out information about the credit quality of financial assets measured at amortised cost. The amounts in the tables represent gross carrying amounts:

30 June 2019					Group						Bank
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	
Gross amount	10,245	1,090	37,863	17	49,215	1,419	1,090	37,863	17	40,389	
Loss allowances	(223)	(108)	(36,264)	(9)	(36,604)	(6)	(108)	(36,264)	(9)	(36,387)	
Balance as of 30 June 2019	10,022	982	1,599	8	12,611	1,413	982	1,599	8	4,002	
31 December 2018					Group						Bank
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	
Gross amount	11,596	12	35,232	-	46,840	2,821	12	35,232	-	38,065	
Loss allowances	(281)	-	(33,837)	-	(34,118)	(46)	-	(33,837)	-	(33,883)	
Balance as of 31 December 2018	11,315	12	1,395	-	12,722	2,775	12	1,395	-	4,182	

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

17. Other assets (continued)

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

	Group		Bank	
	30 June 2019 HRK '000	31 December 2018 HRK '000	30 June 2019 HRK '000	31 December 2018 HRK '000
Fees receivable	28,702	27,161	28,702	27,161
Other receivables	11,687	11,070	11,687	10,904
Premium receivables	7,600	7,371	-	-
Receivables for reinsurance commissions	821	867	-	-
Receivables for risk assessment fees	405	371	-	-
Loss allowance	(36,604)	(34,118)	(36,387)	(33,883)
Subtotal – credit risk	12,611	12,722	4,002	4,182

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

	Group		Bank	
	Jan 1 - Jun 30, 2019 HRK 000	Jan 1 - Dec 31, 2018 HRK 000	Jan 1 - Jun 30, 2019 HRK 000	Jan 1 - Dec 31, 2018 HRK 000
Balance as of 1 January	34,118	13,223	33,883	13,087
Net increase of loss allowances on other assets	2,468	20,915	2,514	20,814
<i>Total recognised through Income statement (Note 8)</i>	<i>2,468</i>	<i>20,915</i>	<i>2,514</i>	<i>20,814</i>
Write-offs	-	(10)	-	(10)
Acquisition of immovable property	-	(14)	-	(14)
Net foreign exchange losses on loss allowances	(10)	6	(10)	6
Other adjustments	28	(2)	-	-
Balance at the end of the reporting period	36,604	34,118	36,387	33,883

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

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

18. Deposits from customers

	Group		Bank	
	30 June 2019 HRK '000	31 December 2018 HRK '000	30 June 2019 HRK '000	31 December 2018 HRK '000
Bank deposits	440,631	149,140	440,631	149,140
Foreign currency regular accounts of companies	6	6	6	6
Foreign currency account of the Ministry of Finance of the Republic of Croatia	24,960	22,593	24,960	22,593
Foreign currency special purpose accounts of the companies	10,805	10,725	10,805	10,725
State institutions' deposits	521,286	237,972	521,286	237,972
Other deposits	11,818	8,660	11,818	8,660
	1,009,506	429,096	1,009,506	429,096

In 2019, Bank deposits relate for the most part to loro deposits of the European Investment Bank (EIB) in the amount of HRK 365,985 thousand, and in 2018 mostly to loro deposit of UniCredit Bank Austria AG in the amount of HRK 148,352 thousand.

The foreign currency account of the Ministry of Finance of the Republic of Croatia relates to the Export Insurance Guarantee Fund comprising of reinsurance premiums paid for export insurance operations of HRK 12,007 thousand (31 December 2018: HRK 9,693 thousand), grant funds provided by the Global Environment Facility (GEF) aimed at the Renewable Energy Resources Project of HRK 7,107 thousand (31 December 2018: HRK 7,078 thousand), the grant funds provided by the GEF aimed at the Programme of issuing bank guarantees for energy efficiency projects within the Energy Efficiency Project of HRK 5,846 thousand (31 December 2018: HRK 5,822 thousand), all managed by HBOR for and on behalf of the Republic of Croatia.

State institutions' demand deposits relate to the Bank's operations carried out for and on behalf of the Ministry of Finance, the Ministry of the Economy, Entrepreneurship and Crafts, the Ministry of the Sea, Transport and Infrastructure, the Ministry of Agriculture, the Ministry of Regional Development, EU Funds, the company Vodovod i kanalizacija d.o.o., Split and the Croatian Agency for SMEs, Innovations and Investments ("HAMAG-BICRO").

Foreign currency special purpose accounts of the companies relate to the inflow of funds and disposition of the advance payment funds paid to the company's account in relation to the issued guarantees of HBOR for the repayment of advance for export transactions. The funds of the advance are used exclusively for the specified purpose of implementation of an export contract, with the consent of HBOR.

HBOR does not pay interest on the above deposits.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

19. Borrowings

	Group		Bank	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
	HRK '000	HRK '000	HRK '000	HRK '000
Balance as of 1 January	14,863,426	15,399,788	14,863,426	15,399,788
New borrowings	1,576,107	2,284,763	1,576,107	2,284,763
Repayments	(2,336,476)	(2,658,936)	(2,336,476)	(2,658,936)
Net foreign exchange gains	(40,709)	(162,189)	(40,709)	(162,189)
	14,062,348	14,863,426	14,062,348	14,863,426
Accrued interest	53,105	55,014	53,105	55,014
Deferred fees	(36,152)	(40,453)	(36,152)	(40,453)
	14,079,301	14,877,987	14,079,301	14,877,987

The Bank is subject to various financial clauses from the Contract. On 30 June 2019 the Bank was in compliance with all required financial clauses from the Contract.

20. Debt securities issued

The book value of bonds includes interest.

Group and Bank	Effective interest rate %	Fair value 30 June 2019	Net book value 30 June 2019	Fair value 31 December 2018	Net book value 31 December 2018
		HRK '000	HRK '000	HRK '000	HRK '000
Bonds EUR 150 million	6.37	1,167,026	1,105,697	1,190,721	1,107,413
Accrued interest		-	9,636	-	43,347
Deferred fees		-	(130)	-	(203)
		1,167,026	1,115,203	1,190,721	1,150,557

The bonds were issued and are listed on the Luxembourg Stock Exchange. 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).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

21. Provisions for guarantees, commitments and other liabilities

	Group		Bank	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
	HRK '000	HRK '000	HRK '000	HRK '000
Provisions for guarantees and commitments	81,094	261,283	81,094	261,283
Provisions for other liabilities	56,591	60,208	56,482	60,078
	137,685	321,491	137,576	321,361

The movements in the loss allowances on guarantees, commitments and other liabilities may be summarized as follows:

	Group		Bank	
	Jan 1 - Jun 30, 2019	Jan 1 - Dec 31, 2018	Jan 1 - Jun 30, 2019	Jan 1 - Dec 31, 2018
	HRK '000	HRK '000	HRK '000	HRK '000
Balance as of 1 January	261,283	49,347	261,283	49,347
Net (release)/increase of loss allowances on guarantees	(155,365)	141,180	(155,365)	141,180
<i>Total recognised through Income Statement (Note 8)</i>	<i>(155,365)</i>	<i>141,180</i>	<i>(155,365)</i>	<i>141,180</i>
Net (release)/increase of loss allowances on commitments	(24,768)	68,931	(24,768)	68,931
Total recognised through Income Statement (Note 8)	(24,768)	68,931	(24,768)	68,931
Net foreign exchange losses on loss allowances	(56)	1,825	(56)	1,825
Balance at the end of the reporting period - Provisions for guarantees and commitments	81,094	261,283	81,094	261,283
Balance as of 1 January	60,208	76,980	60,078	76,723
Net (release) of loss allowances on other liabilities	(3,616)	(16,918)	(3,596)	(16,789)
<i>Total recognised through Income Statement (Note 8)</i>	<i>(3,616)</i>	<i>(16,918)</i>	<i>(3,596)</i>	<i>(16,789)</i>
Unrealized actuarial gains	-	144	-	144
Other adjustments	(1)	2	-	-
Balance at the end of the reporting period - Provisions for other liabilities	56,591	60,208	56,482	60,078

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

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

21. Provisions for guarantees, commitments and other liabilities (continued)

Out of the total provisions for guarantees and commitments, the amount of HRK 2,068 thousand relates to financial institutions (31 December 2018: HRK 2,444 thousand), HRK 78,986 thousand relates to domestic companies (31 December 2018: HRK 258,622 thousand), HRK 10 thousand relates to the public sector (31 December 2018: HRK 147 thousand), HRK 30 thousand relates to other (31 December 2018: HRK 70 thousand).

22. Other liabilities

	Group		Bank	
	30 June	31 December	30 June	31 December
	2019	2018	2019	2018
	HRK '000	HRK '000	HRK '000	HRK '000
Deferred recognition of interest income	191,572	226,064	191,572	226,064
Liabilities in respect of subsidized interest	127,458	120,726	127,458	120,726
Accrued salaries	7,248	7,405	7,058	7,218
Liabilities to suppliers	1,106	2,766	1,058	2,662
Liabilities for prepaid receivables	1,335	2,378	1,335	2,378
Deferrable premium	2,918	2,880	-	-
Provisions for claims	5,313	4,527	-	-
Provisions for return premiums	916	791	-	-
Liabilities to re-insurers	3,372	2,407	-	-
Deferred tax liabilities	1,044	669	-	-
Lease liabilities	1,956	-	1,874	-
Other liabilities	11,555	8,130	10,287	6,866
	355,793	378,743	340,642	365,914

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 127,306 thousand in respect of the Programme of Preferential Financing through HBOR's Loan Programmes (31 December 2018: HRK 120,433 thousand),
- HRK 52 thousand in respect of the Financing Model for the Reconstruction and Modernisation of the Fishing Fleet – Ministry of the Sea, Transport and Infrastructure (31 December 2018: HRK 0 thousand),
- HRK 50 thousand in respect of the Financing Model for the Reconstruction and Modernisation of the Fishing Fleet – Ministry of the Economy, Entrepreneurship and Trade (31 December 2018: HRK 0 thousand),
- HRK 50 thousand in respect of the Financing Model for the Reconstruction and Modernisation of the Fishing Fleet – Ministry of Agriculture (31 December 2018: HRK 293 thousand).

Deferred recognition of interest income of HRK 191,572 thousand (31 December 2018: HRK 226,064 thousand) consists of state subsidies for interest in respect of loans which are provided and drawn down by final borrowers at lower interest rates but are not yet in repayment stage, amounting to HRK 11,573 thousand (31 December 2018: HRK 7,694 thousand), and in respect of those already in repayment stage amounting to HRK 179,999 thousand (31 December 2018: HRK 218,370 thousand).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

23. Guarantees and commitments

In its regular activities, the 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.

These obligations contain credit risk and are therefore part of the overall risk of the Group although they are not recognised in the Statement of financial position.

Group and Bank

	30 June 2019 HRK '000	31 December 2018 HRK '000
Guarantees issued in HRK	81,211	33,917
Guarantees issued in foreign currency	406,564	1,994,851
Undrawn loans	3,933,504	3,379,519
EIF – subscribed, not called up capital	47,319	47,472
Other irrevocable contingent liabilities	93	93
	<u>4,468,691</u>	<u>5,455,852</u>
Provisions for guarantees and commitments	<u>(81,094)</u>	<u>(261,283)</u>
	<u>4,387,597</u>	<u>5,194,569</u>

The following tables set out information about the credit quality of guarantees and commitments. For loan commitments and financial guarantee contracts, the amounts in the tables represent the amount committed or guaranteed:

30 June 2019	Group and Bank				
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	POCI HRK 000	Total HRK 000
Gross amount	3,349,003	682,763	383,804	5,803	4,421,373
Loss allowances	(5,587)	(55,212)	(16,558)	(3,737)	(81,094)
Balance as of 30 June 2019	<u>3,343,416</u>	<u>627,551</u>	<u>367,246</u>	<u>2,066</u>	<u>4,340,279</u>

31 December 2018	Group and Bank				
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	POCI HRK 000	Total HRK 000
Gross amount	2,708,846	669,160	2,009,169	21,205	5,408,380
Loss allowances	(9,170)	(65,094)	(175,996)	(11,023)	(261,283)
Balance as of 31 December 2018	<u>2,699,676</u>	<u>604,066</u>	<u>1,833,173</u>	<u>10,182</u>	<u>5,147,097</u>

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

23. Guarantees and commitments (continued)

Guarantees

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

Bank guarantees are, to the extent of 64%, collateralized by the guarantees, deposits and bank guarantees.

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.

The contingent liability was reduced due to the completion of bankruptcy proceedings during which recourse payment was not collected.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

24. 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 and Group.

Assets and liabilities as of 30 June 2019 and 31 December 2018, and income and expense for the period 1 January to 30 June 2019 and for the period 1 January to 30 June 2018 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
	30 June 2019	30 June 2019	31 December 2018	31 December 2018
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	3,718,771	270,482	4,335,942	189,014
Government funds, executive authorities and agencies	1,032,446	399,467	1,044,262	189,877
State-owned companies	1,076,727	25	1,118,540	19
Associates	4	-	40	10
Key management personnel	3,957	2,040	4,498	2,117
Total	5,831,905	672,014	6,503,282	381,037

Group	Income	Expense	Income	Expense
	Jan 1 – Jun 30 2019	Jan 1 – Jun 30 2019	Jan 1 – Jun 30 2018	Jan 1 – Jun 30 2018
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	31,709	518	28,434	6,200
Government funds, executive authorities and agencies	17,994	164	133,641	529
State-owned companies	39,181	5,281	32,488	59,824
Associates	1	-	9	3
Key management personnel	144	4,440	76	4,386
Total	89,029	10,403	194,648	70,942

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Related-party transactions (continued)

a) Related-party transactions (continued)

Bank	Assets	Liabilities	Assets	Liabilities
	30 June 2019	30 June 2019	31 December 2018	31 December 2018
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	3,718,771	270,482	4,335,942	189,014
Government funds, executive authorities and agencies	993,228	399,374	1,006,177	189,666
State-owned companies	1,076,721	23	1,117,758	17
Subsidiary companies	36,124	-	36,124	-
Associates	4	-	40	10
Key management personnel	3,877	1,935	4,412	2,014
Total	5,828,725	671,814	6,500,453	380,721

Bank	Income	Expense	Income	Expense
	Jan 1 – Jun 30 2019	Jan 1 – Jun 30 2019	Jan 1 – Jun 30 2018	Jan 1 – Jun 30 2018
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	31,709	518	28,434	6,200
Government funds, executive authorities and agencies	17,284	8	132,756	268
State-owned companies	39,181	5,246	32,488	59,784
Subsidiary companies	-	-	-	-
Associates	1	-	9	3
Key management personnel	141	3,745	71	3,898
Total	88,316	9,517	193,758	70,153

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, salaries, provisions on behalf of retirement and jubilee awards of key management 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Related-party transactions (continued)

b) Collaterals received

	Group		Bank	
	30 June 2019 HRK '000	31 December 2018 HRK '000	30 June 2019 HRK '000	31 December 2018 HRK '000
The Republic of Croatia	3,048,296	4,192,023	3,048,074	4,096,373
State agencies	454,547	471,641	454,547	471,641
Total	3,502,843	4,663,664	3,502,621	4,568,014

Collaterals received relates to first-class collateral instruments received as security for HBOR's placements comprising the Republic of Croatia guarantees, HAMAG-BICRO guarantees, loans and guarantee insurance policies and 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 15% 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, benefits payable for past service and payments under contractual agreements. Salaries of key management personnel for the Group in the reporting period amounted to HRK 4,328 thousand (1 January to 30 June 2018: HRK 4,296 thousand), and for the Bank amounted to HRK 3,686 thousand (1 January to 30 June 2018: HRK 3,838 thousand).

Remuneration for the work of the members of the Supervisory Board for the Group amounted to HRK 112 thousand (1 January to 30 June 2018: HRK 90 thousand) and for the Bank amounted to HRK 59 thousand (1 January to 30 June 2018: HRK 60 thousand).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. 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 on 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 to which 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.

25.1. 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.1. 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 and early warning signals and procedures for liquidity crisis indication or occurrence are determined.

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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.1. 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.

25.2. 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.2. 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.

25.3. 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. 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.

25.3.1. 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.

25.3.2. 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, 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 financial instruments of clients with low credit risk, i.e. clients with respect to which no significant increase in credit risk has been established,
- Stage 2 – includes all financial instruments of clients with respect to which a significant increase in credit risk since initial recognition has been established
- Stage 3 – includes financial instruments of clients in default, i.e. clients with respect to which there is objective evidence of value impairment as well as
- a special financial instruments 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.2. 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.

25.3.2.1. 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,
- client 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

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

25.3.2.1. 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

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

25.3.2.2. 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

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

25.3.2.3. 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).

25.3.2.4. 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

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

25.3.2.5. 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. Other criteria include:

- 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.

25.3.2.6. 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

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

25.3.2.6. 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.

25.3.3. 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 project 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 loss 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.3. 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.

25.3.4. 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%.

25.3.5. Overview of modified and restructured loans

Any amendment to the contractual provisions resulting in the change of contractual cash flows from financial assets is deemed to be modification.

A change in terms and conditions of placement 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.6. 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 June 2019, the highest credit exposure of the Group and the Bank to one debtor equalled HRK 2,618,332 thousand (31 December 2018: HRK 2,883,122 thousand for the Group and for the Bank) without considering the effect of mitigation through collateral received.

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.

25.3.7. Risk-Sharing Model

The Risk-Sharing Model covers the model of implementation of HBOR's loan programmes in cooperation with commercial banks, where HBOR assumes a portion of direct lending risk (e.g. 50%), whereas the commercial bank assumes the risk associated with the other part of the loan (irrespective of whether it is financed from HBOR's funds or from commercial bank's funds).

The commercial bank takes the role of the administrative payment and collateral agent and reports to HBOR monthly and quarterly, on the basis of the business cooperation agreement executed between the commercial bank and HBOR, on any changes in creditworthiness of client, changes in provisions, changes in the value of collateral, on whether payments are made duly, on pre-bankruptcy and bankruptcy proceedings and on any other changes in the operations of clients and the repayments of placements.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.7. Risk-Sharing Model (continued)

There are several groups/types of risk-sharing model as follows:

- Initially, the sharing of risk with banks was launched through the programmes of the Government of the Republic of Croatia as a promotional measure aimed at strengthening the liquidity of the economy in the economic crisis period. During that time, three risk-sharing models were implemented: the Model A, the Model A+ and the Economy Development Programme.

Due to the scope of activities and the necessity of exceptionally fast action by HBOR, within the framework of the mentioned loan programmes, commercial banks as administrative, payment and collateral agents submitted to HBOR a shortened application form, and consequently, a shortened loan application procedure was adopted.

Further to the shortened procedure, in the mentioned loan programmes, HBOR had not initially entered collaterals in its business records, because it was the obligation of commercial banks to take charge of, and to activate, the collaterals. Subsequently, in some cases, HBOR entered collaterals in its business records if the agency business with commercial banks was terminated (e.g. because the banks sold their exposures etc.) or individual placements were restructured. Exposure under mentioned placements was entered in the business records of HBOR.

- Other loans under the risk-sharing models under the HBOR loan programmes (primarily investment and restructuring loans, and to a lesser extent loans for liquidity) are implemented in the manner that commercial banks included in the transactions still remain agents (administrative, payment and collateral agents), but HBOR implements a customary procedure as for any other direct loan and enters both exposures and collaterals into the business records at the moment of approving and contracting of placements.

25.3.8. Collaterals and other credit quality (creditworthiness) improvement

Collateral for the Bank's placements are:

- obligatory (bills of exchange and promissory notes),
- 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
- 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.8. 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.

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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.8. 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. In addition, the Bank covers part of its placements by portfolio guarantees in case of losses under individual placements included into guarantee portfolio.

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.

Write-offs

Write-off is performed in accordance with the Methodology for Write-Off of Receivables.

The criteria for considering the write-off of receivables can be classified into 3 main groups:

- A. exhaustion of all available forms of regular and compulsory collection;
- B. implementation of settlement, sale of receivables or restructuring of placements;
- C. difficult social and/or medical condition of the debtor (and/or the co-debtor, guarantor).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure

The table below shows the highest net credit risk exposures 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
	30 June 2019 HRK '000	31 December 2018 HRK '000	30 June 2019 HRK '000	31 December 2018 HRK '000
Assets				
Cash on hand and current accounts with banks	851,115	944,415	845,956	941,069
Deposits with other banks	331,310	261,925	331,310	261,925
Loans to financial institutions	10,337,393	10,234,988	10,337,393	10,234,988
Loans to other customers	13,201,374	12,510,686	13,201,374	12,510,686
Financial assets at fair value through profit or loss	1,692	2,045	1,692	2,045
Financial assets at fair value through other comprehensive income	1,690,582	2,803,761	1,651,988	2,766,363
Debt instruments at amortised cost	1,352	1,363	-	-
Other assets	12,611	12,722	4,002	4,182
Total	26,427,429	26,771,905	26,373,715	26,721,258
Guarantees and commitments				
Guarantees issued in HRK	80,399	33,576	80,399	33,576
Issued guarantees in foreign currency	389,778	1,822,396	389,778	1,822,396
Undrawn loans	3,870,009	3,291,032	3,870,009	3,291,032
Other irrevocable contingent liabilities	93	93	93	93
Total	4,340,279	5,147,097	4,340,279	5,147,097
Total credit risk exposure	30,767,708	31,919,002	30,713,994	31,868,355

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Group	Republic of Croatia	EU countries	Other countries	Total
30 June 2019	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	823,722	19,480	7,913	851,115
Deposits with other banks	330,924	386	-	331,310
Loans to financial institutions	10,337,393	-	-	10,337,393
Loans to other customers	12,608,560	-	592,814	13,201,374
Financial assets at fair value through profit or loss	1,692	-	-	1,692
Financial assets at fair value through other comprehensive income	1,690,582	-	-	1,690,582
Debt instruments at amortised cost	1,352	-	-	1,352
Other assets	5,395	7,216	-	12,611
Total	25,799,620	27,082	600,727	26,427,429
Guarantees and commitments				
Guarantees issued in HRK	80,399	-	-	80,399
Issued guarantees in foreign currency	389,778	-	-	389,778
Undrawn loans	3,377,542	-	492,467	3,870,009
Other irrevocable contingent liabilities	93	-	-	93
Total	3,847,812	-	492,467	4,340,279
Total credit risk exposure	29,647,432	27,082	1,093,194	30,767,708

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Group	Republic of Croatia	EU countries	Other countries	Total
31 December 2018	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	929,211	14,740	464	944,415
Deposits with other banks	261,922	3	-	261,925
Loans to financial institutions	10,234,988	-	-	10,234,988
Loans to other customers	11,736,094	-	774,592	12,510,686
Financial assets at fair value through profit or loss	2,045	-	-	2,045
Financial assets at fair value through other comprehensive income	2,803,761	-	-	2,803,761
Debt instruments at amortised cost	1,363	-	-	1,363
Other assets	5,362	7,293	67	12,722
Total	25,974,746	22,036	775,123	26,771,905
Guarantees and commitments				
Guarantees issued in HRK	33,576	-	-	33,576
Issued guarantees in foreign currency	1,822,396	-	-	1,822,396
Undrawn loans	2,788,456	-	502,576	3,291,032
Other irrevocable contingent liabilities	93	-	-	93
Total	4,644,521	-	502,576	5,147,097
Total credit risk exposure	30,619,267	22,036	1,277,699	31,919,002

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Bank	Republic of Croatia	EU countries	Other countries	Total
30 June 2019	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	818,563	19,480	7,913	845,956
Deposits with other banks	330,924	386	-	331,310
Loans to financial institutions	10,337,393	-	-	10,337,393
Loans to other customers	12,608,560	-	592,814	13,201,374
Financial assets at fair value through profit or loss	1,692	-	-	1,692
Financial assets at fair value through other comprehensive income	1,651,988	-	-	1,651,988
Other assets	4,002	-	-	4,002
Total	25,753,122	19,866	600,727	26,373,715
Guarantees and commitments				
Guarantees issued in HRK	80,399	-	-	80,399
Issued guarantees in foreign currency	389,778	-	-	389,778
Undrawn loans	3,377,542	-	492,467	3,870,009
Other irrevocable contingent liabilities	93	-	-	93
Total	3,847,812	-	492,467	4,340,279
Total credit risk exposure	29,600,934	19,866	1,093,194	30,713,994

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Bank	Republic of Croatia	EU countries	Other countries	Total
31 December 2018	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	925,865	14,740	464	941,069
Deposits with other banks	261,922	3	-	261,925
Loans to financial institutions	10,234,988	-	-	10,234,988
Loans to other customers	11,736,094	-	774,592	12,510,686
Financial assets at fair value through profit or loss	2,045	-	-	2,045
Financial assets at fair value through other comprehensive income	2,766,363	-	-	2,766,363
Other assets	4,106	9	67	4,182
Total	25,931,383	14,752	775,123	26,721,258
Guarantees and commitments				
Guarantees issued in HRK	33,576	-	-	33,576
Issued guarantees in foreign currency	1,822,396	-	-	1,822,396
Undrawn loans	2,788,456	-	502,576	3,291,032
Other irrevocable contingent liabilities	93	-	-	93
Total	4,644,521	-	502,576	5,147,097
Total credit risk exposure	30,575,904	14,752	1,277,699	31,868,355

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

Concentration of assets and guarantees and commitments, according to industry, net exposure, before and after the effect of mitigation through collateral received:

Group	Net highest exposure	Net highest exposure after the effect of mitigation through collateral received	Net highest exposure	Net highest exposure after the effect of mitigation through collateral received
	30 June	30 June	31 December	31 December
	2019	2019	2018	2018
	HRK '000	HRK '000	HRK '000	HRK '000
Financial intermediation and insurance	13,658,638	-	13,037,974	-
Water and electric supply and other infrastructure	1,880,742	1,589,955	1,381,948	1,029,981
Tourism	3,114,710	162,702	3,113,457	77,346
Transport, warehousing and connections	1,897,176	659,871	1,955,578	695,034
Shipbuilding	1,366,317	125,111	2,995,154	382,101
Agriculture and fishery	539,962	159,375	517,983	129,394
Food industry	811,659	149,475	824,235	117,622
Construction industry	1,052,417	37,668	1,011,185	66,009
Other industry	422,684	97,346	460,568	131,022
Public administration	3,178,697	3,178,114	3,788,365	3,788,365
Education	41,537	37,366	43,562	39,163
Manufacture of basic metals and fabricated metal products, except machinery and equipment	219,257	14,601	219,087	19,227
Manufacture of chemicals and chemical products	78,743	41,887	74,185	54,370
Manufacture of other non-metallic mineral products	190,270	64,026	207,541	65,207
Pharmaceutical industry	425,495	909	461,803	911
Other	1,889,404	330,520	1,826,377	312,829
Total credit risk exposure	30,767,708	6,648,926	31,919,002	6,908,581

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

Concentration of assets and guarantees and commitments, according to industry, net exposure, before and after the effect of mitigation through collateral received (continued):

Bank	Net highest exposure after the effect of mitigation through collateral received		Net highest exposure after the effect of mitigation through collateral received	
	30 June 2019 HRK '000	30 June 2019 HRK '000	31 December 2018 HRK '000	31 December 2018 HRK '000
Financial intermediation and insurance	13,646,075	-	13,027,345	-
Water and electric supply and other infrastructure	1,880,742	1,589,955	1,381,948	1,029,981
Tourism	3,114,710	162,702	3,113,457	77,346
Transport, warehousing and connections	1,897,035	659,730	1,955,578	695,034
Shipbuilding	1,366,317	125,111	2,995,154	382,101
Agriculture and fishery	539,962	159,375	517,943	129,354
Food industry	811,531	149,347	824,134	117,521
Construction industry	1,052,289	37,540	1,011,110	65,933
Other industry	422,655	97,317	460,205	130,659
Public administration	3,139,503	3,138,920	3,750,268	3,750,268
Education	41,537	37,366	43,562	39,163
Manufacture of basic metals and fabricated metal products, except machinery and equipment	219,245	14,589	218,982	19,122
Manufacture of chemicals and chemical products	78,721	41,865	74,166	54,351
Manufacture of other non-metallic mineral products	190,270	64,026	207,522	65,189
Pharmaceutical industry	424,586	-	460,893	-
Other	1,888,816	329,932	1,826,088	312,540
Total credit risk exposure	30,713,994	6,607,775	31,868,355	6,868,562

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

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

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

The fair value of collateral for the Group as of 30 June 2019 amounted to HRK 24,118,782 thousand (31 December 2018: HRK 25,010,421 thousand) and for the Bank HRK 24,106,219 thousand (31 December 2018: HRK 24,999,793 thousand).

Net highest exposure as at 30 June 2019 for the Group amounted to HRK 6,648,926 thousand (31 December 2018: HRK 6,908,581 thousand) and for the Bank HRK 6,607,775 thousand (31 December 2018: HRK 6,868,562 thousand).

In the total net highest exposure after the effect of mitigation through collateral received as of 30 June 2019, the credit risk of HRK 4,679,368 thousand for the Group (31 December 2018: HRK 5,325,257 thousand) and HRK 4,640,173 thousand for the Bank (31 December 2018: HRK 5,287,160 thousand) is not covered with ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia for the Group and the Bank of HRK 2,067,347 thousand (31 December 2018: HRK 1,572,804 thousand), from local (regional) authorities of HRK 670,286 thousand (31 December 2018: HRK 647,039 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 215,802 thousand (31 December 2018: HRK 228,404 thousand), government funds of HRK 33 thousand (31 December 2018: HRK 85 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 1.690.360 thousand for the Group and HRK 1,651,165 thousand for the Bank (31 December 2018: HRK 2,803,692 thousand for the Group and HRK 2,765,595 thousand for the Bank). In addition, an amount of HRK 35,540 thousand (31 December 2018: HRK 73,233 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

Credit risk quality according to type of financial assets

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

Group							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
30 June 2019	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						
Assets												
Cash on hand and current accounts with banks	851,115	-	-	-	-	851,115	-	-	-	-	-	-
Deposits with other banks	331,310	-	-	-	-	331,310	-	-	-	-	-	-
Loans to financial institutions	10,209,883	104,622	22,888	-	-	10,337,393	-	-	-	-	-	-
Loans to other customers	10,038,905	1,009,348	1,884,781	268,340	-	13,201,374	3,723,152	73,337	303,756	24,508	-	4,124,753
Financial assets at fair value through profit or loss	-	-	-	-	1,692	1,692	-	-	-	-	1,692	1,692
Financial assets at fair value through other comprehensive income	1,689,759	-	823	-	-	1,690,582	1,689,759	-	823	-	-	1,690,582
Debt instruments at amortised cost	1,352	-	-	-	-	1,352	1,352	-	-	-	-	1,352
Other assets	10,023	981	1,599	8	-	12,611	2,495	982	1,542	8	-	5,027
Total	23,132,347	1,114,951	1,910,091	268,348	1,692	26,427,429	5,416,758	74,319	306,121	24,516	1,692	5,823,406
Guarantees and commitments												
Guarantees issued in HRK	60,059	-	20,340	-	-	80,399	10,559	-	-	-	-	10,559
Issued guarantees in foreign currency	42,872	-	346,906	-	-	389,778	1,464	-	55,683	-	-	57,147
Undrawn loans	3,240,392	627,551	-	2,066	-	3,870,009	631,740	124,014	-	1,967	-	757,721
Other irrevocable contingent liabilities	93	-	-	-	-	93	93	-	-	-	-	93
Total	3,343,416	627,551	367,246	2,066	-	4,340,279	643,856	124,014	55,683	1,967	-	825,520
Total credit risk exposure	26,475,763	1,742,502	2,277,337	270,414	1,692	30,767,708	6,060,614	198,333	361,804	26,483	1,692	6,648,926

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

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

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

Group	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 - 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
31 December 2018												
Assets												
Cash on hand and current accounts with banks	944,415	-	-	-	-	944,415	-	-	-	-	-	-
Deposits with other banks	261,925	-	-	-	-	261,925	-	-	-	-	-	-
Loans to financial institutions	10,064,840	137,737	32,411	-	-	10,234,988	-	-	-	-	-	-
Loans to other customers	9,408,775	1,141,971	1,728,419	231,521	-	12,510,686	2,930,911	127,418	278,948	1,372	-	3,338,649
Financial assets at fair value through profit or loss	-	-	-	-	2,045	2,045	-	-	-	-	2,045	2,045
Financial assets at fair value through other comprehensive income	2,802,223	770	768	-	-	2,803,761	2,802,223	770	768	-	-	2,803,761
Debt instruments at amortised cost	1,363	-	-	-	-	1,363	1,363	-	-	-	-	1,363
Other assets	11,315	12	1,395	-	-	12,722	3,067	1	1,281	-	-	4,349
Total	23,494,856	1,280,490	1,762,993	231,521	2,045	26,771,905	5,737,564	128,189	280,997	1,372	2,045	6,150,167
Guarantees and commitments												
Guarantees issued in HRK	13,236	-	20,340	-	-	33,576	12,371	-	-	-	-	12,371
Issued guarantees in foreign currency	31,756	-	1,790,640	-	-	1,822,396	1,469	-	293,997	-	-	295,466
Undrawn loans	2,654,591	604,066	22,193	10,182	-	3,291,032	318,481	110,058	21,945	-	-	450,484
Other irrevocable contingent liabilities	93	-	-	-	-	93	93	-	-	-	-	93
Total	2,699,676	604,066	1,833,173	10,182	-	5,147,097	332,414	110,058	315,942	-	-	758,414
Total credit risk exposure	26,194,532	1,884,556	3,596,166	241,703	2,045	31,919,002	6,069,978	238,247	596,939	1,372	2,045	6,908,581

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

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

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

Bank							Net exposure of portfolio after the effect of mitigation through collateral received	Net exposure of portfolio after the effect of mitigation through collateral received	Net exposure of portfolio after the effect of mitigation through collateral received	Net exposure of portfolio after the effect of mitigation through collateral received	Not subject to IFRS 9 after the effect of mitigation through collateral received	Net exposure of total portfolio after the effect of mitigation through collateral received
30 June 2019	Net exposure of portfolio - risk Stage 1	Net exposure of portfolio - risk Stage 2	Net exposure of portfolio - risk Stage 3	Net exposure of portfolio of risk POCI	Not subject to IFRS 9	Net exposure of total portfolio	Stage 1	Stage 2	Stage 3	POCI	HRK '000	HRK '000
	HRK '000	HRK '000	HRK '000	HRK '000	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	845,956	-	-	-	-	845,956	-	-	-	-	-	-
Deposits with other banks	331,310	-	-	-	-	331,310	-	-	-	-	-	-
Loans to financial institutions	10,209,883	104,622	22,888	-	-	10,337,393	-	-	-	-	-	-
Loans to other customers	10,038,905	1,009,348	1,884,781	268,340	-	13,201,374	3,723,152	73,337	303,756	24,508	-	4,124,753
Financial assets at fair value through profit or loss	-	-	-	-	1,692	1,692	-	-	-	-	1,692	1,692
Financial assets at fair value through other comprehensive income	1,651,165	-	823	-	-	1,651,988	1,651,165	-	823	-	-	1,651,988
Other assets	1,413	982	1,599	8	-	4,002	1,290	982	1,542	8	-	3,822
Total	23,078,632	1,114,952	1,910,091	268,348	1,692	26,373,715	5,375,607	74,319	306,121	24,516	1,692	5,782,255
Guarantees and commitments												
Guarantees issued in HRK	60,059	-	20,340	-	-	80,399	10,559	-	-	-	-	10,559
Issued guarantees in foreign currency	42,872	-	346,906	-	-	389,778	1,464	-	55,683	-	-	57,147
Undrawn loans	3,240,392	627,551	-	2,066	-	3,870,009	631,740	124,014	-	1,967	-	757,721
Other irrevocable contingent liabilities	93	-	-	-	-	93	93	-	-	-	-	93
Total	3,343,416	627,551	367,246	2,066	-	4,340,279	643,856	124,014	55,683	1,967	-	825,520
Total credit risk exposure	26,422,048	1,742,503	2,277,337	270,414	1,692	30,713,994	6,019,463	198,333	361,804	26,483	1,692	6,607,775

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

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

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

Bank							Net exposure of portfolio after the effect of mitigation through collateral received	Net exposure of portfolio after the effect of mitigation through collateral received	Net exposure of portfolio after the effect of mitigation through collateral received	Net exposure of portfolio after the effect of mitigation through collateral received	Not subject to IFRS 9 after the effect of mitigation through collateral received	Net exposure of total portfolio after the effect of mitigation through collateral received
31 December 2018		Net exposure of portfolio - risk Stage 1	Net exposure of portfolio - risk Stage 2	Net exposure of portfolio - risk Stage 3	Net exposure of portfolio of risk POCI	Not subject to IFRS 9	Net exposure of total portfolio	Net exposure of portfolio after the effect of mitigation through collateral received	Net exposure of portfolio after the effect of mitigation through collateral received	Net exposure of portfolio after the effect of mitigation through collateral received	Net exposure of portfolio 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	HRK '000	HRK '000	HRK '000
Assets												
Cash on hand and current accounts with banks		941,069	-	-	-	-	941,069	-	-	-	-	-
Deposits with other banks		261,925	-	-	-	-	261,925	-	-	-	-	-
Loans to financial institutions		10,064,840	137,737	32,411	-	-	10,234,988	-	-	-	-	-
Loans to other customers		9,408,775	1,141,971	1,728,419	231,521	-	12,510,686	2,930,911	127,418	278,948	1,372	3,338,649
Financial assets at fair value through profit or loss		-	-	-	-	2,045	2,045	-	-	-	-	2,045
Financial assets at fair value through other comprehensive income		2,765,595	-	768	-	-	2,766,363	2,765,595	-	768	-	2,766,363
Other assets		2,775	12	1,395	-	-	4,182	1,809	1	1,281	-	3,091
Total		23,444,979	1,279,720	1,762,993	231,521	2,045	26,721,258	5,698,315	127,419	280,997	1,372	6,110,148
Guarantees and commitments												
Guarantees issued in HRK		13,236	-	20,340	-	-	33,576	12,371	-	-	-	12,371
Issued guarantees in foreign currency		31,756	-	1,790,640	-	-	1,822,396	1,469	-	293,997	-	295,466
Undrawn loans		2,654,591	604,066	22,193	10,182	-	3,291,032	318,481	110,058	21,945	-	450,484
Other irrevocable contingent liabilities		93	-	-	-	-	93	93	-	-	-	93
Total		2,699,676	604,066	1,833,173	10,182	-	5,147,097	332,414	110,058	315,942	-	758,414
Total credit risk exposure		26,144,655	1,883,786	3,596,166	241,703	2,045	31,868,355	6,030,729	237,477	596,939	1,372	6,868,562

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

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

As at 30 June 2019 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 2,989,193 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 2,066,184 thousand, local and regional authorities of HRK 670,286 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 216,183 thousand. An additional amount of HRK 36,540 thousand relates to receivables from majority state-owned companies (controlling influence).

As at 30 June 2019 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 1,690,340 thousand for the Group and HRK 1,651,165 thousand for the Bank.

As at 30 June 2019 other assets of HRK 1,104 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

As at 31 December 2018 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 2,520,298 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 1,571,622 thousand, local and regional authorities of HRK 647,039 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 228,404 thousand. An additional amount of HRK 73,233 thousand relates to receivables from majority state-owned companies (controlling influence).

As at 31 December 2018 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 2,803,585 thousand for the Group and HRK 2,765,595 thousand for the Bank.

As at 31 December 2018 other assets of HRK 1,174 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument by risk category:

Cash on hand and current accounts with banks

Group					
30 June 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2019	1,668	-	-	-	1,668
Transfer by risk stages	-	-	-	-	-
Net increase/(release) of loss allowance	(871)	-	-	-	(871)
Balance at 30 June 2019	797	-	-	-	797

Group					
31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2018	41	-	-	-	41
Transfer by risk stages	-	-	-	-	-
Net increase/(release) of loss allowance	1,625	-	-	-	1,625
Net foreign exchange loss on loss allowances	2	-	-	-	2
Balance at 31 December 2018	1,668	-	-	-	1,668

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances (continued)

Cash on hand and current accounts with banks (continued)

Bank					
30 June 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2019	1,651	-	-	-	1,651
Transfer by risk stages	-	-	-	-	-
Net increase/(release) of loss allowance	(862)	-	-	-	(862)
Balance at 30 June 2019	789	-	-	-	789

Bank					
31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2018	41	-	-	-	41
Transfer by risk stages	-	-	-	-	-
Net increase/(release) of loss allowance	1,608	-	-	-	1,608
Net foreign exchange loss on loss allowances	2	-	-	-	2
Balance at 31 December 2018	1,651	-	-	-	1,651

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances (continued)

Deposits with other banks

Group and Bank

30 June 2019	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2019	1,361	-	-	-	1,361
Transfer by risk stages	-	-	-	-	-
Net increase/(release) of loss allowance	433	-	-	-	433
Net foreign exchange gains on loss allowances	(3)	-	-	-	(3)
Balance at 30 June 2019	1,791	-	-	-	1,791

Group and Bank

31 December 2018	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2018	152	-	-	-	152
Transfer by risk stages	-	-	-	-	-
Net increase/(release) of loss allowance	1,216	-	-	-	1,216
Net foreign exchange gains on loss allowances	(7)	-	-	-	(7)
Balance at 31 December 2018	1,361	-	-	-	1,361

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. *Allowances (continued)*

Loans to financial institutions

Group and Bank

30 June 2019

	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2019	78,126	20,941	18,087	-	117,154
Transfer by risk stages	-	-	-	-	-
Net increase/(release) of loss allowance	(31,001)	(6,449)	(3,246)	-	(40,696)
Unwind – changes due to the lapse of time	-	-	89	-	89
Loss allowances transferred from/to loans to other customers	(3)	-	-	-	(3)
Net foreign exchange gains on loss allowances	(113)	(33)	(13)	-	(159)
Balance at 30 June 2019	47,009	14,459	14,917	-	76,385

Group and Bank

31 December 2018

	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2018	76,581	33,937	20,502	-	131,020
Transfer by risk stages	4,272	(4,484)	212	-	-
Net increase/(release) of loss allowance	(2,170)	(8,216)	(2,763)	-	(13,149)
Unwind – changes due to the lapse of time	-	-	275	-	275
Loss allowances transferred from/to loans to other customers	(4)	(24)	-	-	(28)
Net foreign exchange gains on loss allowances	(553)	(272)	(139)	-	(964)
Balance at 31 December 2018	78,126	20,941	18,087	-	117,154

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. *Allowances (continued)*

Loans to other customers

Group and Bank 30 June 2019	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2019	351,878	494,557	2,469,639	64,222	3,380,296
Transfer by risk stages	6,943	(51,358)	(28,140)	72,555	-
Net increase/(release) of loss allowance	(43,623)	176,244	90,014	(5,125)	217,510
Write-offs	-	(10)	(10,717)	-	(10,727)
Unwind – changes due to the lapse of time	138	34	14,183	3,270	17,625
Loss allowances transferred to/from loans to financial institutions	3	-	-	-	3
Acquisition of immovable property	-	-	(2,788)	-	(2,788)
Collection of interest transferred from the off-balance sheet records and other	-	-	212	-	212
Sale of receivables	-	-	(52)	-	(52)
Net foreign exchange gains on loss allowances	(949)	(1,519)	(2,364)	121	(4,711)
Balance at 30 June 2019	314,390	617,948	2,529,987	135,043	3,597,368

Group and Bank 31 December 2018	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2018	381,600	452,780	2,758,825	-	3,593,205
Transfer by risk stages	208,556	(268,421)	9,302	50,563	-
Net increase/(release) of loss allowance	(233,530)	312,157	(298,863)	9,075	(211,161)
Write-offs	(2)	-	(42,028)	(1,228)	(43,258)
Unwind – changes due to the lapse of time	337	213	51,357	5,182	57,089
Loss allowances transferred to/from loans to financial institutions	4	24	-	-	28
Acquisition of immovable property	(5)	-	(984)	-	(989)
Interest transferred from the off-balance sheet records	-	-	496	-	496
Net foreign exchange gains/(losses) on loss allowances	(5,082)	(2,196)	(8,466)	630	(15,114)
Balance at 31 December 2018	351,878	494,557	2,469,639	64,222	3,380,296

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances (continued)

Financial assets at fair value through other comprehensive income

Group					
30 June 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2019	5,007	-	1,739	-	6,746
Transfer by risk stages	-	-	-	-	-
Net increase/(release) of loss allowance	(3,468)	-	34	-	(3,434)
Net foreign exchange gains on loss allowances	(1)	-	(6)	-	(7)
Balance at 30 June 2019	1,538	-	1,767	-	3,305

Group					
31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2018	3,837	451	-	-	4,288
Transfer by risk stages	-	(451)	451	-	-
Net increase/(release) of loss allowance	1,184	-	1,293	-	2,477
Net foreign exchange gain on loss allowances	(14)	-	(5)	-	(19)
Balance at 31 December 2018	5,007	-	1,739	-	6,746

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances (continued)

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

Bank					
30 June 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2019	4,720	-	1,739	-	6,459
Transfer by risk stages	-	-	-	-	-
Net increase/(release) of loss allowance	(3,242)	-	34	-	(3,208)
Net foreign exchange gain on loss allowances	(1)	-	(6)	-	(7)
Balance at 30 June 2019	1,477	-	1,767	-	3,244

Bank					
31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2018	3,546	451	-	-	3,997
Transfer by risk stages	-	(451)	451	-	-
Net increase/(release) of loss allowance	1,188	-	1,293	-	2,481
Net foreign exchange gain on loss allowances	(14)	-	(5)	-	(19)
Balance at 31 December 2018	4,720	-	1,739	-	6,459

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances (continued)

Other assets

Group					
30 June 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2019	281	-	33,837	-	34,118
Transfer by risk stages	(26)	1	(15)	40	-
Net increase/(release) of loss allowance	(60)	107	2,452	(31)	2,468
Other adjustments	28	-	-	-	28
Net foreign exchange gain on loss allowances	-	-	(10)	-	(10)
Balance at 30 June 2019	223	108	36,264	9	36,604

Group					
31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2018	140	4	13,079	-	13,223
Transfer by risk stages	20	(1)	(19)	-	-
Net increase/(release) of loss allowance	123	(3)	20,795	-	20,915
Write-offs	-	-	(10)	-	(10)
Acquisition of immovable property	-	-	(14)	-	(14)
Other	(2)	-	-	-	(2)
Net foreign exchange loss on loss allowances	-	-	6	-	6
Balance at 31 December 2018	281	-	33,837	-	34,118

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances (continued)

Other assets (continued)

Bank					
30 June 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2019	46	-	33,837	-	33,883
Transfer by risk stages	-	1	(41)	40	-
Net increase/(release) of loss allowance	(40)	107	2,478	(31)	2,514
Net foreign exchange gains on loss allowances	-	-	(10)	-	(10)
Balance at 30 June 2019	6	108	36,264	9	36,387

Bank					
31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2018	4	4	13,079	-	13,087
Transfer by risk stages	20	(1)	(19)	-	-
Increase/(release) of loss allowance	22	(3)	20,795	-	20,814
Write-offs	-	-	(10)	-	(10)
Acquisition of immovable property	-	-	(14)	-	(14)
Net foreign exchange gains on loss allowances	-	-	6	-	6
Balance at 31 December 2018	46	-	33,837	-	33,883

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances (continued)

Guarantees and commitments

Group and Bank 30 June 2019	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2019	9,170	65,094	175,996	11,023	261,283
Transfer by risk stages	-	(204)	(2,701)	2,905	-
Net release of loss allowance	(3,570)	(9,678)	(156,702)	(10,183)	(180,133)
Net foreign exchange gains on loss allowances	(13)	-	(35)	(8)	(56)
Balance at 30 June 2019	5,587	55,212	16,558	3,737	81,094

Group and Bank 31 December 2018	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2018	20,203	749	28,395	-	49,347
Transfer by risk stages	(473)	476	(2)	(1)	-
Net Increase/(decrease) of loss allowance	(10,367)	63,487	145,958	11,033	210,111
Net foreign exchange gains/(losses) on loss allowances	(193)	382	1,645	(9)	1,825
Balance at 31 December 2018	9,170	65,094	175,996	11,023	261,283

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.4. Liquidity risk

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 30 June 2019 and 31 December 2018 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 30 June 2019	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets						
Cash on hand and current accounts with banks	851,119	-	-	-	-	851,119
Deposits with other banks	221,473	-	109,467	-	370	331,310
Loans to financial institutions*	976,494	371,017	1,198,205	2,679,640	5,112,037	10,337,393
Loans to other customers	2,205,767	178,548	1,851,387	2,064,804	6,900,868	13,201,374
Financial assets at fair value through profit or loss	336,404	-	-	-	1,692	338,096
Financial assets at fair value through other comprehensive income	1,705,977	10,656	20	-	-	1,716,653
Debt instruments at amortised cost	-	10	4	-	1,338	1,352
Property, plant and equipment and intangible assets	-	-	-	-	48,694	48,694
Foreclosed assets	-	9,696	461	13,630	3,631	27,418
Other assets	5,833	10,688	5,769	1,263	1,582	25,135
Total assets	6,303,067	580,615	3,165,313	4,759,337	12,070,212	26,878,544
Liabilities						
Deposits from customers	728,868	219,095	16,194	23,584	21,765	1,009,506
Borrowings	382,206	309,710**	1,515,381	3,995,098	7,876,906	
Debt securities issued	-	9,636	1,105,567	-	-	1,115,203
Provisions for guarantees, commitments and other liabilities	60,465	4,304	14,115	27,571	31,230	137,685
Other liabilities	150,341	14,192	39,174	77,276	74,810	355,793
Total liabilities	1,321,880	556,937	2,690,431	4,123,529	8,004,711	16,697,488
Liquidity gap	4,981,187	23,678	474,882	635,808	4,065,501	10,181,056
Guarantees and commitments						
Guarantees issued in HRK	80,399	-	-	-	-	80,399
Issued guarantees in foreign currency	389,778	-	-	-	-	389,778
Undrawn loans	3,870,009	-	-	-	-	3,870,009
EIF – subscribed, not called up capital	47,318	-	-	-	-	47,318
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	4,387,597	-	-	-	-	4,387,597

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

* *Receivables of HRK 674,416 thousand relate to reverse REPO agreements.*

** *Accrued interest on loans not yet due is allocated to the category from 1 to 3 months.*

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.4. Liquidity risk (continued)

Group 31 December 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	944,417	-	-	-	-	944,417
Deposits with other banks	261,925	-	-	-	-	261,925
Loans to financial institutions*	389,640	693,932	1,231,553	2,718,573	5,201,290	10,234,988
Loans to other customers	2,096,151	141,949	792,913	2,769,366	6,710,307	12,510,686
Financial assets at fair value through profit or loss	334,221	-	-	-	2,045	336,266
Financial assets at fair value through other comprehensive income	2,818,280	11,167	23	-	-	2,829,470
Debt instruments at amortised cost	-	9	4	-	1,350	1,363
Property, plant and equipment and intangible assets	-	-	-	-	50,832	50,832
Foreclosed assets	-	-	9,690	2,666	12,974	25,330
Other assets	6,050	8,294	7,607	1,753	-	23,704
Total assets	6,850,684	855,351	2,041,790	5,492,358	11,978,798	27,218,981
Liabilities						
Deposits from customers	229,704	6,579	177,736	757	14,320	429,096
Borrowings	313,492	461,196**	1,454,492	3,966,550	8,682,257	14,877,987
Debt securities issued	-	43,347	-	1,107,210	-	1,150,557
Provisions for guarantees, commitments and other liabilities	125,437	10,305	35,597	71,166	78,986	321,491
Other liabilities	143,475	14,261	44,789	88,740	87,478	378,743
Total liabilities	812,108	535,688	1,712,614	5,234,423	8,863,041	17,157,874
Liquidity gap	6,038,576	319,663	329,176	257,935	3,115,757	10,061,107
Guarantees and commitments						
Guarantees issued in HRK	33,576	-	-	-	-	33,576
Issued guarantees in foreign currency	1,822,396	-	-	-	-	1,822,396
Undrawn loans	3,291,032	-	-	-	-	3,291,032
EIF – subscribed, not called up capital	47,472	-	-	-	-	47,472
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	5,194,569	-	-	-	-	5,194,569

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

* Receivables of HRK 691,269 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 222,527 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.4. Liquidity risk (continued)

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 30 June 2019 and 31 December 2018 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 30 June 2019	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets						
Cash on hand and current accounts with banks	845,960	-	-	-	-	845,960
Deposits with other banks	221,473	-	109,467	-	370	331,310
Loans to financial institutions*	976,494	371,017	1,198,205	2,679,640	5,112,037	10,337,393
Loans to other customers	2,205,767	178,548	1,851,387	2,064,804	6,900,868	13,201,374
Financial assets at fair value through profit or loss	330,713	-	-	-	1,692	332,405
Financial assets at fair value through	1,667,497	10,562	-	-	-	1,678,059
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	48,529	48,529
Foreclosed assets	-	9,696	461	13,630	3,631	27,418
Other assets	4,484	3,268	5,715	1,263	1,545	16,275
Total assets	6,252,388	573,091	3,165,235	4,759,337	12,104,796	26,854,847
Liabilities						
Deposits from customers	728,868	219,095	16,194	23,584	21,765	1,009,506
Borrowings	382,206	309,710**	1,515,381	3,995,098	7,876,906	14,079,301
Debt securities issued	-	9,636	1,105,567	-	-	1,115,203
Provisions for guarantees, commitments and other liabilities	60,465	4,304	14,006	27,571	31,230	137,576
Other liabilities	149,713	10,656	34,680	68,266	77,327	340,642
Total liabilities	1,321,252	553,401	2,685,828	4,114,519	8,007,228	16,682,228
Liquidity gap	4,931,136	19,690	479,407	644,818	4,097,568	10,172,619
Guarantees and commitments						
Guarantees issued in HRK	80,399	-	-	-	-	80,399
Issued guarantees in foreign currency	389,778	-	-	-	-	389,778
Undrawn loans	3,870,009	-	-	-	-	3,870,009
EIF – subscribed, not called up capital	47,318	-	-	-	-	47,318
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	4,387,597	-	-	-	-	4,387,597

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

* Receivables of HRK 674,416 thousand relate to reverse REPO agreements.

** Accrued interest on loans not yet due is allocated to the category from 1 to 3 months.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.4. Liquidity risk (continued)

Bank	Up to 1	1 to 3	3 months to	1 to 3	Over 3	Total
31 December 2018	month	months	1 year	years	years	
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets						
Cash on hand and current accounts with banks	941,071	-	-	-	-	941,071
Deposits with other banks	261,925	-	-	-	-	261,925
Loans to financial institutions*	389,640	693,932	1,231,553	2,718,573	5,201,290	10,234,988
Loans to other customers	2,096,151	141,949	792,913	2,769,366	6,710,307	12,510,686
Financial assets at fair value through	328,758	-	-	-	2,045	330,803
Financial assets at fair value through	2,781,000	11,072	-	-	-	2,792,072
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	50,764	50,764
Foreclosed assets	-	-	9,690	2,666	12,974	25,330
Other assets	4,856	970	7,585	1,753	-	15,164
Total assets	6,803,401	847,923	2,041,741	5,492,358	12,013,504	27,198,927
Liabilities						
Deposits from customers	229,704	6,579	177,736	757	14,320	429,096
Borrowings	313,492	461,196**	1,454,492	3,966,550	8,682,257	14,877,987
Debt securities issued	-	43,347	-	1,107,210	-	1,150,557
Provisions for guarantees, commitments and other liabilities	125,417	10,305	35,487	71,166	78,986	321,361
Other liabilities	142,805	11,734	40,406	81,033	89,936	365,914
Total liabilities	811,418	533,161	1,708,121	5,226,716	8,865,499	17,144,915
Liquidity gap	5,991,983	314,762	333,620	265,642	3,148,005	10,054,012
Guarantees and commitments						
Guarantees issued in HRK	33,576	-	-	-	-	33,576
Issued guarantees in foreign currency	1,822,396	-	-	-	-	1,822,396
Undrawn loans	3,291,032	-	-	-	-	3,291,032
EIF – subscribed, not called up capital	47,472	-	-	-	-	47,472
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	5,194,569	-	-	-	-	5,194,569

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

* Receivables of HRK 691,269 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 222,527 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.4. Liquidity risk (continued)

The table below indicates the remaining contractual maturity of financial liabilities, whereas the guarantees and commitments of the Group are classified in the category “up to 1 month”, owing to the possibility of a premature call to meet a liability (undiscounted amounts):

Group 30 June 2019	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits from customers	728,868	219,095	16,194	23,584	21,765	1,009,506
Borrowings	405,397	338,164	1,675,112	4,404,180	8,880,791	15,703,644
Debt securities issued	-	9,636	1,172,109	-	-	1,181,745
Provisions for guarantees, commitments and other liabilities	60,465	4,304	14,115	27,571	31,230	137,685
Other liabilities	150,341	14,192	39,174	77,276	74,810	355,793
Total	1,345,071	585,391	2,916,704	4,532,611	9,008,596	18,388,373

Guarantees and commitments

Guarantees issued in HRK	80,399	-	-	-	-	80,399
Issued guarantees in foreign currency	389,778	-	-	-	-	389,778
Undrawn loans	3,870,009	-	-	-	-	3,870,009
EIF – subscribed, not called up capital	47,318	-	-	-	-	47,318
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	4,387,597	-	-	-	-	4,387,597

Group 31 December 2018	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits from customers	229,704	6,579	177,736	757	14,320	429,096
Borrowings	338,464	438,773	1,647,005	4,387,915	9,457,974	16,270,131
Debt securities issued	-	-	66,758	1,173,968	-	1,240,726
Provisions for guarantees, commitments and other liabilities	125,437	10,305	35,597	71,166	78,986	321,491
Other liabilities	143,475	14,261	44,789	88,740	87,478	378,743
Total	837,080	469,918	1,971,885	5,722,546	9,638,758	18,640,187

Guarantees and commitments

Guarantees issued in HRK	33,576	-	-	-	-	33,576
Issued guarantees in foreign currency	1,822,396	-	-	-	-	1,822,396
Undrawn loans	3,291,032	-	-	-	-	3,291,032
EIF – subscribed, not called up capital	47,472	-	-	-	-	47,472
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	5,194,569	-	-	-	-	5,194,569

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.4. Liquidity risk (continued)

The table below indicates the remaining contractual maturity of financial liabilities, whereas the guarantees and commitments of the Bank are classified in the category “up to 1 month”, owing to the possibility of a premature call to meet a liability (undiscounted amounts):

Bank	Up to 1	1 - 3	3 - 12	1 - 3	Over 3	Total
30 June 2019	month	months	months	years	years	
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits from customers	728,868	219,095	16,194	23,584	21,765	1,009,506
Borrowings	405,397	338,164	1,675,112	4,404,180	8,880,791	15,703,644
Debt securities issued	-	9,636	1,172,109	-	-	1,181,745
Provisions for guarantees, commitments and other liabilities	60,465	4,304	14,006	27,571	31,230	137,576
Other liabilities	149,713	10,656	34,680	68,266	77,327	340,642
Total	1,344,443	581,855	2,912,101	4,523,601	9,011,113	18,373,113

Guarantees and commitments

Guarantees issued in HRK	80,399	-	-	-	-	80,399
Issued guarantees in foreign currency	389,778	-	-	-	-	389,778
Undrawn loans	3,870,009	-	-	-	-	3,870,009
EIF – subscribed, not called up capital	47,318	-	-	-	-	47,318
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	4,387,597	-	-	-	-	4,387,597

Bank	Up to 1	1 - 3	3 - 12	1 - 3	Over 3	Total
31 December 2018	month	months	months	years	years	
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits from customers	229,704	6,579	177,736	757	14,320	429,096
Borrowings	338,464	438,773	1,647,005	4,387,915	9,457,974	16,270,131
Debt securities issued	-	-	66,758	1,173,968	-	1,240,726
Provisions for guarantees, commitments and other liabilities	125,417	10,305	35,487	71,166	78,986	321,361
Other liabilities	142,805	11,734	40,406	81,033	89,936	365,914
Total	836,390	467,391	1,967,392	5,714,839	9,641,216	18,627,228

Guarantees and commitments

Guarantees issued in HRK	33,576	-	-	-	-	33,576
Issued guarantees in foreign currency	1,822,396	-	-	-	-	1,822,396
Undrawn loans	3,291,032	-	-	-	-	3,291,032
EIF – subscribed, not called up capital	47,472	-	-	-	-	47,472
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	5,194,569	-	-	-	-	5,194,569

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management

25.5. Market risk

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

25.5.1. Interest rate risk

The following tables demonstrate the sensitivity of the Group to the interest rate risk as of 30 June 2019 and 31 December 2018 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter.

Assets and liabilities on which interest is not charged are placed into the non-interest bearing category. The tables below demonstrate the estimation of Group's interest rate risk exposure as of 30 June 2019 and 31 December 2018 which may not be indicative for the positions in other periods.

Group	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non-interest bearing	Total	Fixed interest rate
30 June 2019	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	35,477	-	-	-	-	815,642	851,119	35,477
Deposits with other banks	330,922	-	-	-	-	388	331,310	330,922
Loans to financial institutions	956,810	598,769	1,160,987	2,597,072	5,003,409	20,346	10,337,393	10,051,631
Loans to other customers	2,353,741	364,853	1,815,530	1,803,793	6,749,557	113,900	13,201,374	12,513,993
Financial assets at fair value through profit or loss	-	-	-	-	1,692	336,404	338,096	1,692
Financial assets at fair value through other comprehensive income	1,684,440	-	-	-	-	32,213	1,716,653	1,684,440
Debt instruments at amortised cost	-	-	-	-	1,340	12	1,352	1,340
Other assets	-	-	-	-	-	25,135	25,135	-
Total assets	5,361,390	963,622	2,976,517	4,400,865	11,755,998	1,344,040	26,802,432	24,619,495
Liabilities								
Deposits from customers	439,921	-	-	-	-	569,585	1,009,506	439,921
Borrowings	382,206	401,288	1,502,228	3,960,024	7,780,450	53,105	14,079,301	13,877,128
Debt securities issued	-	-	1,105,567	-	-	9,636	1,115,203	1,105,567
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	137,685	137,685	-
Other liabilities	-	-	-	-	-	355,793	355,793	-
Total liabilities	822,127	401,288	2,607,795	3,960,024	7,780,450	1,125,804	16,697,488	15,422,616
Interest rate gap	4,539,263	562,334	368,722	440,841	3,975,548	218,236	10,104,944	9,196,879

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.1. Interest rate risk (continued)

Group	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non-interest bearing	Total	Fixed interest rate
31 December 2018	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	24,290	-	-	-	-	920,127	944,417	24,290
Deposits with other banks	261,922	-	-	-	-	3	261,925	261,922
Loans to financial institutions	383,417	956,301	1,193,348	2,624,259	5,070,629	7,034	10,234,988	9,922,017
Loans to other customers	2,273,725	465,131	712,572	2,476,258	6,491,188	91,812	12,510,686	11,699,344
Financial assets at fair value through profit or loss	-	-	-	-	2,045	334,221	336,266	2,045
Financial assets at fair value through other comprehensive income	2,792,223	-	-	-	-	37,247	2,829,470	2,792,223
Debt instruments at amortised cost	-	-	-	-	1,350	13	1,363	1,350
Other assets	-	-	-	-	-	23,704	23,704	-
Total assets	5,735,577	1,421,432	1,905,920	5,100,517	11,565,212	1,414,161	27,142,819	24,703,191
Liabilities								
Deposits from customers	148,351	-	-	-	-	280,745	429,096	-
Borrowings	313,492	559,016	1,441,392	3,931,617	8,577,456	55,014	14,877,987	14,665,772
Debt securities issued	-	-	-	1,107,210	-	43,347	1,150,557	1,107,210
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	321,491	321,491	-
Other liabilities	-	-	-	-	-	378,743	378,743	-
Total liabilities	461,843	559,016	1,441,392	5,038,827	8,577,456	1,079,340	17,157,874	15,772,982
Interest rate gap	5,273,734	862,416	464,528	61,690	2,987,756	334,821	9,984,945	8,930,209

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.1. Interest rate risk (continued)

The following tables demonstrate the sensitivity of HBOR to the interest rate risk as of 30 June 2019 and 31 December 2018 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter. Assets and liabilities on which interest is not charged are placed into the non-interest bearing category.

The tables below demonstrate the estimation of HBOR's interest rate risk exposure as of 30 June 2019 and 31 December 2018 which may not be indicative for the positions in other periods.

Bank	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non-interest bearing	Total	Fixed interest rate
30 June 2019	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	30,310	-	-	-	-	815,650	845,960	30,310
Deposits with other banks	330,922	-	-	-	-	388	331,310	330,922
Loans to financial institutions	956,810	598,769	1,160,987	2,597,072	5,003,409	20,346	10,337,393	10,051,631
Loans to other customers	2,353,741	364,853	1,815,530	1,803,793	6,749,557	113,900	13,201,374	12,513,993
Financial assets at fair value through profit or loss	-	-	-	-	1,692	330,713	332,405	1,692
Financial assets at fair value through other comprehensive income	1,641,426	-	-	-	-	36,633	1,678,059	1,641,426
Other assets	-	-	-	-	-	16,275	16,275	-
Total assets	5,313,209	963,622	2,976,517	4,400,865	11,754,658	1,333,905	26,742,776	24,569,974
Liabilities								
Deposits from customers	439,921	-	-	-	-	569,585	1,009,506	439,921
Borrowings	382,206	401,288	1,502,228	3,960,024	7,780,450	53,105	14,079,301	13,877,128
Debt securities issued	-	-	1,105,567	-	-	9,636	1,115,203	1,105,567
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	137,576	137,576	-
Other liabilities	-	-	-	-	-	340,642	340,642	-
Total liabilities	822,127	401,288	2,607,795	3,960,024	7,780,450	1,110,544	16,682,228	15,422,616
Interest rate gap	4,491,082	562,334	368,722	440,841	3,974,208	223,361	10,060,548	9,147,358

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.1. Interest rate risk (continued)

Bank	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non-interest bearing	Total	Fixed interest rate
31 December 2018								
	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	20,944	-	-	-	-	920,127	941,071	20,944
Deposits with other banks	261,922	-	-	-	-	3	261,925	261,922
Loans to financial institutions	383,417	956,301	1,193,348	2,624,259	5,070,629	7,034	10,234,988	9,922,017
Loans to other customers	2,273,725	465,131	712,572	2,476,258	6,491,188	91,812	12,510,686	11,699,344
Financial assets at fair value through profit or loss	-	-	-	-	2,045	328,758	330,803	2,045
Financial assets at fair value through other comprehensive income	2,755,291	-	-	-	-	36,781	2,792,072	2,755,291
Other assets	-	-	-	-	-	15,164	15,164	-
Total assets	5,695,299	1,421,432	1,905,920	5,100,517	11,563,862	1,399,679	27,086,709	24,661,563
Liabilities								
Deposits from customers	148,351	-	-	-	-	280,745	429,096	-
Borrowings	313,492	559,016	1,441,392	3,931,617	8,577,456	55,014	14,877,987	14,665,772
Debt securities issued	-	-	-	1,107,210	-	43,347	1,150,557	1,107,210
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	321,361	321,361	-
Other liabilities	-	-	-	-	-	365,914	365,914	-
Total liabilities	461,843	559,016	1,441,392	5,038,827	8,577,456	1,066,381	17,144,915	15,772,982
Interest rate gap	5,233,456	862,416	464,528	61,690	2,986,406	333,298	9,941,794	8,888,581

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.1. Interest rate risk (continued)

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

	Group		Bank	
	30 June	31 December	30 June	31 December
	2019	2018	2019	2018
	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Fixed interest rate assets	24,619,495	24,703,191	24,569,974	24,661,563
Variable interest rate assets	838,897	1,025,467	838,897	1,025,467
Non-interest bearing	1,344,040	1,414,161	1,333,905	1,399,679
Total assets	26,802,432	27,142,819	26,742,776	27,086,709
Liabilities				
Fixed interest rate liabilities	15,422,616	15,772,982	15,422,616	15,772,982
Variable interest rate liabilities	149,068	305,552	149,068	305,552
Non-interest bearing	1,125,804	1,079,340	1,110,544	1,066,381
Total liabilities	16,697,488	17,157,874	16,682,228	17,144,915

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.1. Interest rate risk (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 comparing to the reporting date 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 of variable interest rates. 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.

Reference interest rates indexed to:	Increase in b.p. Jun 30, 2019	Effect on profit Jun 30, 2019	Increase in b.p. Dec 31, 2018	Effect on profit Dec 31, 2018
		HRK '000		HRK '000
EUR	+2	73	+1	40
USD	+15	486	+17	599
		HRK '000		HRK '000
Reference interest rates indexed to:	Decrease in b.p. Jun 30, 2019	Effect on profit Jun 30, 2019	Decrease in b.p. Dec 31, 2018	Effect on profit Dec 31, 2018
		HRK '000		HRK '000
EUR	-2	(73)	-1	(40)
USD	-15	(486)	-17	(599)

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.2. Currency risk

Total assets and total liabilities as of 30 June 2019 and 31 December 2018 in HRK and foreign currencies can be shown as follows:

Group	USD	EUR	Other	Total	HRK	Total
	HRK '000	HRK '000	foreign currencies HRK '000	foreign currencies HRK '000	HRK '000	HRK '000
30 June 2019						
Assets						
Cash on hand and current accounts with banks	9,379	19,957	1,433	30,769	820,350	851,119
Deposits with other banks	-	331,310	-	331,310	-	331,310
Loans to financial institutions	-	5,561,244	-	5,561,244	4,776,149	10,337,393
Loans to other customers	572,538	8,014,429	-	8,586,967	4,614,407	13,201,374
Financial assets at fair value through profit or loss	-	54,274	-	54,274	283,822	338,096
Financial assets at fair value through other comprehensive income	-	406,427	-	406,427	1,310,226	1,716,653
Debt instruments at amortised cost	-	1,352	-	1,352	-	1,352
Property, plant and equipment and intangible assets	-	-	-	-	48,694	48,694
Foreclosed assets	-	-	-	-	27,418	27,418
Other assets	-	7,326	-	7,326	17,809	25,135
Total assets	581,917	14,396,319	1,433	14,979,669	11,898,875*	26,878,544
Liabilities						
Deposits from customers	20,589	455,732	81	476,402	533,104	1,009,506
Borrowings	571,824	13,507,477	-	14,079,301	-	14,079,301
Debt securities issued	-	1,115,203	-	1,115,203	-	1,115,203
Provisions for guarantees, commitments and other liabilities	9,596	6,911	279	16,786	120,899	137,685
Other liabilities	942	11,114	31	12,087	343,706	355,793
Total liabilities	602,951	15,096,437	391	15,699,779	997,709	16,697,488
Currency gap	(21,034)	(700,118)	1,042	(720,110)	10,901,166	10,181,056

*Amounts linked to a one-way currency clause represent HRK 76,414 thousand.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.2. Currency risk (continued)

Group	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
31 December 2018	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets						
Cash on hand and current accounts with banks	4,824	15,188	1,391	21,403	923,014	944,417
Deposits with other banks	40,545	221,380	-	261,925	-	261,925
Loans to financial institutions	-	5,784,740	-	5,784,740	4,450,248	10,234,988
Loans to other customers	635,501	7,866,575	-	8,502,076	4,008,610	12,510,686
Financial assets at fair value through profit or loss	-	50,119	-	50,119	286,147	336,266
Financial assets at fair value through other comprehensive income	-	619,962	-	619,962	2,209,508	2,829,470
Debt instruments at amortised cost	-	1,363	-	1,363	-	1,363
Property, plant and equipment and intangible assets	-	-	-	-	50,832	50,832
Foreclosed assets	-	-	-	-	25,330	25,330
Other assets	-	7,395	-	7,395	16,309	23,704
Total assets	680,870	14,566,722	1,391	15,248,983	11,969,998*	27,218,981
Liabilities						
Deposits from customers	20,526	161,858	80	182,464	246,632	429,096
Borrowings	688,500	14,189,487	-	14,877,987	-	14,877,987
Debt securities issued	-	1,150,557	-	1,150,557	-	1,150,557
Provisions for guarantees, commitments and other liabilities	55,291	116,896	268	172,455	149,036	321,491
Other liabilities	3,284	9,392	34	12,710	366,033	378,743
Total liabilities	767,601	15,628,190	382	16,396,173	761,701	17,157,874
Currency gap	(86,731)	(1,061,468)	1,009	(1,147,190)	11,208,297	10,061,107

*Amounts linked to a one-way currency clause represent HRK 90,776 thousand.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.2. Currency risk (continued)

Total assets and total liabilities as of 30 June 2019 and 31 December 2018 in HRK and foreign currencies can be shown as follows:

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
30 June 2019						
Assets						
Cash on hand and current accounts with banks	9,379	19,957	1,433	30,769	815,191	845,960
Deposits with other banks	-	331,310	-	331,310	-	331,310
Loans to financial institutions	-	5,561,244	-	5,561,244	4,776,149	10,337,393
Loans to other customers	572,538	8,014,429	-	8,586,967	4,614,407	13,201,374
Financial assets at fair value through profit or loss	-	48,584	-	48,584	283,821	332,405
Financial assets at fair value through other comprehensive income	-	399,699	-	399,699	1,278,360	1,678,059
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	48,529	48,529
Foreclosed assets	-	-	-	-	27,418	27,418
Other assets	-	110	-	110	16,165	16,275
Total assets	581,917	14,375,333	1,433	14,958,683	11,896,164*	26,854,847
Liabilities						
Deposits from customers	20,589	455,732	81	476,402	533,104	1,009,506
Borrowings	571,824	13,507,477	-	14,079,301	-	14,079,301
Debt securities issued	-	1,115,203	-	1,115,203	-	1,115,203
Provisions for guarantees, commitments and other liabilities	9,596	6,911	279	16,786	120,790	137,576
Other liabilities	761	3,088	-	3,849	336,793	340,642
Total liabilities	602,770	15,088,411	360	15,691,541	990,687	16,682,228
Currency gap	(20,853)	(713,078)	1,073	(732,858)	10,905,477	10,172,619

*Amounts linked to a one-way currency clause represent HRK 76,414 thousand.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.2. Currency risk (continued)

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
31 December 2018						
Assets						
Cash on hand and current accounts with banks	4,824	15,188	1,391	21,403	919,668	941,071
Deposits with other banks	40,545	221,380	-	261,925	-	261,925
Loans to financial institutions	-	5,784,740	-	5,784,740	4,450,248	10,234,988
Loans to other customers	635,501	7,866,575	-	8,502,076	4,008,610	12,510,686
Financial assets at fair value through profit or loss	-	46,807	-	46,807	283,996	330,803
Financial assets at fair value through other comprehensive income	-	611,072	-	611,072	2,181,000	2,792,072
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	50,764	50,764
Foreclosed assets	-	-	-	-	25,330	25,330
Other assets	-	110	-	110	15,054	15,164
Total assets	680,870	14,545,872	1,391	15,228,133	11,970,794*	27,198,927
Liabilities						
Deposits from customers	20,526	161,858	80	182,464	246,632	429,096
Borrowings	688,500	14,189,487	-	14,877,987	-	14,877,987
Debt securities issued	-	1,150,557	-	1,150,557	-	1,150,557
Provisions for guarantees, commitments and other liabilities	55,291	116,896	268	172,455	148,906	321,361
Other liabilities	3,088	1,317	-	4,405	361,509	365,914
Total liabilities	767,405	15,620,115	348	16,387,868	757,047	17,144,915
Currency gap	(86,535)	(1,074,243)	1,043	(1,159,735)	11,213,747	10,054,012

* Amounts linked to a one-way currency clause represent HRK 90,776 thousand,

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.2. 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 and USD exchange rates against HRK was used in the foreign currency risk sensitivity analysis, with the other variables remaining stable, in order to assess the hypothetical effect on HBOR's profit as of 30 June 2019.

Volatility of the exchange rates determined using the standard deviation method on the changes of the foreign exchange rates of EUR/HRK and USD/HRK equalled 1.29% for EUR/HRK, while the USD/HRK volatility rate was 6.14% in the previous 12 months.

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

	Change in currency rate Jun 30, 2019 %	Effect on profit Jun 30, 2019 HRK' 000	Change in currency rate Dec 31, 2018 %	Effect on profit Dec 31, 2018 HRK' 000
EUR	+1.29	(7,242)	+1.97	(14,207)
EUR	-1.29	7,670	-1.97	15,217
USD	+6.14	(459)	+7.28	(1,402)
USD	-6.14	459	-7.28	1,402

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

26. Fair value of financial assets and financial liabilities

The accounting policy on fair value measurements is discussed in Note 4.2.

26.1. Fair value of financial assets and financial liabilities initially recognized and measured at fair value

The tables below present a breakdown of financial assets at fair value based on IFRS 9 classification on 30 June 2019 and 31 December 2018.

Group	30 June 2019		
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
Financial assets at fair value through profit or loss:			
<i>Loans at FVPL:</i>			
Mezzanine loans	-	-	1,692
<i>Investments in investment funds:</i>			
Investments in investment funds at fair value through profit or loss	336,212	-	-
Equity instruments:			
<i>Listed equity instruments:</i>			
Investments in corporate shares	-	-	-
<i>Unlisted equity instruments:</i>			
Investments in corporate shares	-	-	31
Investment in financial institutions shares	-	161	-
Total financial assets at fair value through profit or loss	336,212	161	1,723
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
<i>Listed debt instruments:</i>			
Bonds of the Republic of Croatia	1,228,472	-	-
Corporate bonds	770	-	-
Treasury bills of the Ministry of Finance	449,751	-	-
Accrued interest	10,766	-	-
<i>Unlisted debt instruments:</i>			
Corporate bonds	-	-	557
Accrued interest	-	-	266
Total debt instruments	1,689,759	-	823
<i>Unlisted equity instruments:</i>			
Investment in shares of foreign legal entities -SWIFT	-	38	-
Shares of foreign financial institutions – EIF	-	26,033	-
Total equity instruments	-	26,071	-
Total financial assets at fair value through other comprehensive income	1,689,759	26,071	823

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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

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

26.1. Fair value of financial assets and financial liabilities initially recognized and measured at fair value (continued)

Group	31 December 2018		
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
Financial assets at fair value through profit or loss:			
<i>Loans at FVPL:</i>			
Mezzanine loans	-	-	2,045
<i>Investments in investment funds:</i>			
Investments in investment funds at fair value through profit or loss	334,060	-	-
Equity instruments:			
<i>Listed equity instruments:</i>			
Investments in corporate shares	-	-	-
<i>Unlisted equity instruments:</i>			
Investments in corporate shares	-	-	-
Investment in financial institutions shares	-	161	-
Total financial assets at fair value through profit or loss	334,060	161	2,045
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
<i>Listed debt instruments:</i>			
Bonds of the Republic of Croatia	1,124,611	-	-
Corporate bonds	770	-	-
Treasury bills of the Ministry of Finance	1,666,299	-	-
Accrued interest	11,313	-	-
<i>Unlisted debt instruments:</i>			
Corporate bonds	-	-	535
Accrued interest	-	-	233
Total debt instruments	2,802,993	-	768
<i>Unlisted equity instruments:</i>			
Investment in shares of foreign legal entities - SWIFT	-	38	-
Shares of foreign financial institutions – EIF	-	25,671	-
Total equity instruments	-	25,709	-
Total financial assets at fair value through other comprehensive income	2,802,993	25,709	768

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

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

26.1. Fair value of financial assets and financial liabilities initially recognized and measured at fair value (continued)

Bank	30 June 2019		
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
Financial assets at fair value through profit or loss:			
<i>Loans at FVPL:</i>			
Mezzanine loans	-	-	1,692
<i>Investments in investment funds:</i>			
Investments in investment funds at fair value through profit or loss	330,521	-	-
Equity instruments:			
<i>Listed equity instruments:</i>			
Investments in companies' shares			
<i>Unlisted equity instruments:</i>			
Investments in companies' shares	-	-	31
Investment in financial institutions shares	-	161	-
Total financial assets at fair value through profit or loss	330,521	1961	1,723
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
<i>Listed debt instruments:</i>			
Bonds of the Republic of Croatia	1,191,118	-	-
Treasury bills of the Ministry of Finance	449,751	-	-
Accrued interest	10,296	-	-
<i>Unlisted debt instruments:</i>			
Corporate bonds	-	-	557
Accrued interest	-	-	266
Total debt instruments	1,651,165	-	823
<i>Unlisted equity instruments:</i>			
Investment in shares of foreign legal entities – SWIFT	-	38	-
Shares of foreign financial institutions – EIF	-	26,033	-
Total equity instruments	-	26,071	-
Total financial assets at fair value through other comprehensive income	1,651,165	26,071	823

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

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

26.1. Fair value of financial assets and financial liabilities initially recognized and measured at fair value (continued)

Bank	31 December 2018		
	Level 1	Level 2	Level 3
	HRK '000	HRK '000	HRK '000
Financial assets at fair value through profit or loss:			
<i>Loans at FVPL:</i>			
Mezzanine loans	-	-	2,045
<i>Investments in investment funds:</i>			
Investments in investment funds at fair value through profit or loss	328,597	-	-
Equity instruments:			
<i>Listed equity instruments:</i>			
Investments in companies' shares	-	-	-
<i>Unlisted equity instruments:</i>			
Investments in companies' shares	-	-	-
Investment in financial institutions shares	-	161	-
Total financial assets at fair value through profit or loss	328,597	161	2,045
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
<i>Listed debt instruments:</i>			
Bonds of the Republic of Croatia	1,088,457	-	-
Treasury bills of the Ministry of Finance	1,666,299	-	-
Accrued interest	10,839	-	-
<i>Unlisted debt instruments:</i>			
Corporate bonds	-	-	535
Accrued interest	-	-	233
Total debt instruments	2,765,595	-	768
<i>Unlisted equity instruments:</i>			
Investment in shares of foreign legal entities – SWIFT	-	38	-
Shares of foreign financial institutions – EIF	-	25,671	-
Total equity instruments	-	25,709	-
Total financial assets at fair value through other comprehensive income	2,765,595	25,709	768

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

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

26.1. Fair value of financial assets and financial liabilities initially recognized and measured at fair value (continued)

26.1.1. Level 3 - fair value

a) Mezzanine loans

For the assessment of fair value of subordinate debt (mezzanine loans) financing, the method of discounting expected future cash flows is used.

Due to their contractual provisions, mezzanine loans do not pass the SPPI test. Mezzanine loans do not pass the SPPI test due to the following contractual provisions:

- in the case of realisation of contractually defined performance indicators (net debt to EBITDA ratio) over the predetermined period, creditors have the option, but not the obligation, to convert a mezzanine loan to a „senior debt“,
- upon the final maturity of the mezzanine loan, creditors have the option, but not the obligation, to convert the loan into the debtor's equity and
- the debtor has the option, but not the obligation, to prematurely repay the loan at discount.

Due to the above-mentioned provisions of the mezzanine loan, the assessment of their fair value was carried out in accordance with the precautionary principle, according to which income is recognised only when it is actually incurred, and expenses also when they are possible, under the assumption that the regular operations of debtor are continued in the future. This is a situation in which the Group would, upon the final maturity of the mezzanine loan, convert its receivables into the debtor's equity.

On 30 June 2019, the market price of ordinary shares of the debtor that the Bank could subscribe amounted to HRK 5,285 thousand, assuming that the market price of the shares included all market expectations related to future operations of the issuer. Given that HBOR can subscribe ordinary shares not earlier than on 30 April 2030, the amount of market value is reduced to the current value by applying the appropriate discount rate. The present value of these shares in HBOR's expected ownership amounts to HRK 1,692 thousand, which represents the fair value of the mezzanine loan on 30 June 2019.

b) Corporate bonds that are allocated to Stage 3

(i) Techniques of valuation and significant input data that are not visible

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 present 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

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

26.1. Fair value of financial assets and financial liabilities initially recognized and measured at fair value (continued)

26.1.1. Level 3 - fair value (continued)

b) Corporate bonds that are allocated to Stage 3 (continued)

(i) Techniques of valuation and significant input data that are not visible (continued)

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.

ii) Sensitivity analysis of corporate bond with the stated potential effect on profit/loss as at 28 June 2019, under the assumption of a change in discount rate (yield) of 2% and 10%

Under the assumption that the market interest rates change by 2% compared with those in effect as at 28 June 2019, 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 10.36%, the bond price would be 38.18%, which would result in an increase in HBOR's generated profits of HRK 17 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 14.36%, the bond price would be 36.04%, which would result in a decrease in HBOR's generated profits of HRK 16 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 June 2019. "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 56 thousand.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

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

26.1. Fair value of financial assets and financial liabilities initially recognized and measured at fair value (continued)

26.1.1. Level 3 - fair value (continued)

c) Adjustment of fair value of Level 3:

i) The fair value of Level 3 financial assets measured at fair value upon initial recognition – mezzanine loans:

	Jun 30, 2019 HRK '000	Group Jun 30, 2018 HRK '000	Jun 30, 2019 HRK '000	Bank Jun 30, 2018 HRK '000
Balance as at 1 January	2,045	4,016	2,045	4,016
Changes in financial assets at fair value	(353)	-	(353)	-
Balance as of 30 June	1,692	4,016	1,692	4,016

ii) The fair value of Level 3 financial assets measured at fair value upon initial recognition – unlisted debt securities:

	Jun 30, 2019 HRK '000	Group Jun 30, 2018 HRK '000	Jun 30, 2019 HRK '000	Bank Jun 30, 2018 HRK '000
Balance as at 1 January	768	689	768	689
Increase in fair value through other comprehensive income	27	28	27	28
Net foreign exchange	(5)	(27)	(5)	(27)
Accrued interest	33	31	33	31
Balance as of 30 June	823	721	823	721

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

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

26.1. Fair value of financial assets and financial liabilities initially recognized and measured at fair value (continued)

26.1.2. Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by level in the fair value hierarchy into which each fair value measurement is categorised.

Group 30 June 2019	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000	Total fair values HRK '000	Total carrying amount HRK '000
Assets					
Cash on hand and current accounts with banks	851,119	-	-	851,119	851,119
Deposits with other banks	-	331,310	-	331,310	331,310
Loans to financial institutions	-	-	10,557,406	10,557,406	10,337,393
Loans to other customers	-	-	14,636,124	14,636,124	13,201,374
	851,119	331,310	25,193,530	26,375,959	24,721,196
Liabilities					
Deposits from customers	-	1,009,506	-	1,009,506	1,009,506
Borrowings	-	-	15,984,821	15,984,821	14,079,301
Debt securities issued	-	1,167,026	-	1,167,026	1,115,203
	-	2,176,532	15,984,821	18,161,353	16,204,010
Group 31 December 2018					
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000	Total fair values HRK '000	Total carrying amount HRK '000
Assets					
Cash on hand and current accounts with banks	944,417	-	-	944,417	944,417
Deposits with other banks	-	261,925	-	261,925	261,925
Loans to financial institutions	-	-	9,487,169	9,487,169	10,234,988
Loans to other customers	-	-	15,768,096	15,768,096	12,510,686
	944,417	261,925	25,255,265	26,461,607	23,952,016
Liabilities					
Deposits from customers	-	429,096	-	429,096	429,096
Borrowings	-	-	15,454,821	15,454,821	14,877,987
Debt securities issued	-	1,190,721	-	1,190,721	1,150,557
	-	1,619,817	15,454,821	17,074,638	16,457,640

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

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

26.1. Fair value of financial assets and financial liabilities initially recognized and measured at fair value (continued)

26.1.2. Financial instruments not measured at fair value (continued)

Bank	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
30 June 2019	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets					
Cash on hand and current accounts with banks	845,960	-	-	845,960	845,960
Deposits with other banks	-	331,310	-	331,310	331,310
Loans to financial institutions	-	-	10,557,406	10,557,406	10,337,393
Loans to other customers	-	-	14,636,124	14,636,124	13,201,374
	845,960	331,310	25,193,530	26,370,800	24,716,037
Liabilities					
Deposits from customers	-	1,009,506	-	1,009,506	1,009,506
Borrowings	-	-	15,984,821	15,984,821	14,079,301
Debt securities issued	-	1,167,026	-	1,167,026	1,115,203
	-	2,176,532	15,984,821	18,161,353	16,204,010

Bank	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2018	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets					
Cash on hand and current accounts with banks	941,071	-	-	941,071	941,071
Deposits with other banks	-	261,925	-	261,925	261,925
Loans to financial institutions	-	-	9,487,169	9,487,169	10,234,988
Loans to other customers	-	-	15,768,096	15,768,096	12,510,686
	941,071	261,925	25,255,265	26,458,261	23,948,670
Liabilities					
Deposits from customers	-	429,096	-	429,096	429,096
Borrowings	-	-	15,454,821	15,454,821	14,877,987
Debt securities issued	-	1,190,721	-	1,190,721	1,150,557
	-	1,619,817	15,454,821	17,074,638	16,457,640

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

27. 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 interest 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.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

27. Reporting by segments (continued)

30 June 2019	Banking activities	Insurance activities	Other activities	Unallocated	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Net interest income	160,817	658	-		161,475
Net fee income	11,206	544	864	-	12,614
Net income/(expenses) from financial operations	9,758	161	8	-	9,927
Net premiums earned	-	2,887	-	-	2,887
Other income	4,221	38	140	(146)	4,253
Income from operating activities	186,002	4,288	1,012	(146)	191,156
Operating costs	(78,393)	(2,872)	(706)	146	(81,825)
Impairment loss and provisions	(30,550)	369	(67)	-	(30,248)
Expenses for insured cases	-	(423)	-		(423)
Net change in provisions	-	(914)	-	-	(914)
Other expenses	-	(113)	-	-	(113)
Operating expenses	(108,943)	(3,953)	(773)	146	(113,523)
Profit before income tax	77,059	335	239	-	77,633
Income tax	-	(103)	-	-	(103)
Profit for the year	77,059	232	239	-	77,530
Assets of segment	26,854,847	58,627	1,722	(36,652)	26,878,544
Total assets	26,854,847	58,627	1,722	(36,652)	26,878,544
Liabilities of segment	16,682,228	15,191	106	(27)	16,697,498
Total equity	10,172,619	5,936	1,317	1,174	10,181,046
Total liabilities and total equity	26,854,847	21,127	1,423	1,147	26,878,544

Intra-group transactions are presented under "Unallocated".

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

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

27. Reporting by segments (continued)

30 June 2018	Banking activities	Insurance activities	Other activities	Unallocated	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Net interest income	211,009	732	-	-	211,741
Net fee income	21,720	459	662	-	22,841
Net income/(expenses) from financial operations	18,692	(301)	(2)	-	18,389
Net premiums earned	-	3,222	-	-	3,222
Other income	4,574	42	147	(144)	4,619
Income from operating activities	255,995	4,154	807	(144)	260,812
Operating costs	(71,786)	(2,533)	(605)	144	(74,780)
Impairment loss and provisions	10,724	(9)	6	-	10,721
Expenses for insured cases	-	(159)	-	-	(159)
Net change in provisions	-	(341)	-	-	(341)
Other expenses	-	(210)	-	-	(210)
Operating expenses	(61,062)	(3,252)	(599)	144	(64,769)
Profit before income tax	194,933	902	208	-	196,043
Income tax	-	-	-	-	-
Profit for the period	194,933	902	208	-	196,043
31 December 2018					
Assets of segment	27,198,927	55,340	1,363	(36,649)	27,218,981
Total assets	27,198,927	55,340	1,363	(36,649)	27,218,981
Liabilities of segment	17,144,915	12,845	137	(23)	17,157,874
Total equity	10,054,012	4,995	926	1,174	10,061,107
Total liabilities and total equity	27,198,927	17,840	1,063	1,151	27,218,981

Intra-group transactions are presented under "Unallocated".

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

28. 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 12% and that 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 the 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.

The Group calculates regulatory capital and capital requirements in accordance with Basel II requirements, and below is a breakdown of capital adequacy ratio as at 30 June 2019 and 31 December 2018.

	Group		Bank	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
	HRK '000	HRK '000	HRK '000	HRK '000
Total regulatory capital	9,916,459	9,816,139	9,916,007	9,815,749
Credit risk weighted exposure amount	15,462,198	15,519,739	15,446,753	15,504,641
Initial credit requirements for operating risk	897,361	897,363	877,875	877,863
Initial capital requirements for currency risk	543,289	725,300	532,483	706,112
Total capital requirements	16,902,848	17,142,402	16,857,111	17,088,616
	%	%	%	%
Capital adequacy ratio	58.67	57.26	58.82	57.44
	HRK '000	HRK '000	HRK '000	HRK '000
Own funds needed for ensuring capital adequacy according to regulatory requirements	2,028,342	2,057,088	2,022,853	2,050,634

Minimum capital adequacy ratio, in accordance with Basel II requirements, on the reporting date, i.e. 30 June 2019 was 12% (31 December 2018: 12%).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2019 (continued)

(All amounts are expressed in HRK thousand)

29. Events after the reporting period

29.1. Appointment and revoking of President and Members of Supervisory Board

On 24 July 2019, the Government of the Republic of Croatia made the decision revoking some of the members of HBOR's Supervisory Board from their positions: Ms Gabrijela Žalac and Mr Tomislav Tolušić, who had been, by the decision of the Government of the Republic of Croatia dated 17 July 2019, revoked from their positions as the Minister of Regional Development and EU Funds and as the Deputy Prime Minister of the Republic of Croatia and the Minister of Agriculture.

On 19 July 2019, Mr Zdravko Marić, DSc, Minister of Finance, was appointed Deputy Prime Minister of the Republic of Croatia by the decision of the Government of the Republic of Croatia. Consequently, by the decision of the Government of the Republic of Croatia of 24 July 2019, he was revoked from his position as the President of the Supervisory Board of HBOR as the Minister of Finance and was appointed President of the Supervisory Board of HBOR as the Deputy Prime Minister of the Republic of Croatia and the Minister of Finance by the decision on the appointment of the President of the Supervisory Board of HBOR of 24 July 2019.

By the Decision on the appointment of some of the members of HBOR's Supervisory Board of 24 July 2019, Mr Marko Pavić, MSc, Minister of Regional Development and EU Funds, was appointed ex-officio member of the Supervisory Board of HBOR and Ms Marija Vučković, MSc, Minister of Agriculture, was appointed member of the Supervisory Board of HBOR.

29.2. Fundraising

After the reporting period, HBOR concluded two loan agreements with the Council of Europe Development Bank (CEB) on August 2019, namely:

- for the financing of SMEs and local and regional government and/or other public sector entities in the amount of EUR 200 million, and
- for the financing of the KBC Rijeka project in the amount of EUR 50 million.

Appendix - Financial Performance of the HKO Group
Statement of Profit or Loss and Other Comprehensive Income
for the period 1 January - 30 June (unaudited)

(All amounts are expressed in HRK thousand)

	Jun 30, 2019 HRK '000	Jun 30, 2018 HRK '000
Premium earned		
Gross premium written	5,214	4,962
Premium impairment allowance originated and reserved on collection	(28)	(14)
Gross outward reinsurance premium	(2,262)	(1,891)
Net premium written	2,924	3,057
Changes in the gross unearned premium reserve	105	59
Changes in the gross unearned premium reserve, reinsurer's share	(142)	92
Net premium earned	2,887	3,208
Fee and commission income	1,408	1,121
Net investment income	849	539
Other operating income	33	45
Net income	5,177	4,913
Gross expense for returned premiums	(210)	(400)
Reinsurer's share	98	190
Gross reserve for returned premiums	(229)	33
Reinsurer's share	103	(22)
Net expense and reserve for returned premiums	(238)	(199)
Claims incurred	(603)	(130)
Claims incurred, reinsurer's share	179	(29)
Change in the claims provision	(527)	(628)
Change in the claims provision, reinsurer's share	(261)	276
Net claims incurred	(1,212)	(511)
Marketing and provision expenses	(435)	(464)
Administrative expenses	(2,888)	(2,502)
Other operating expenses	192	(34)
Net exchange differences other than those on financial instruments	(22)	(105)
Profit before income tax	574	1,098
Income tax	(103)	-
Profit for the period	471	1,098
Other comprehensive income		
Items that are not transferred subsequently to profit or loss:		
Deferred tax – adjustment for previous period	-	(17)
Total items that are not transferred subsequently to profit or loss	-	(17)
Items that may be reclassified subsequently to profit or loss:		
Gains on revaluation of financial assets available for sale	1,515	587
Decrease in the fair value of financial assets available for sale	(409)	(525)
Transfer of realized gains on asset available for sale to profit or loss	-	-
Deferred tax	(237)	(11)
Total items that may be reclassified subsequently to profit or loss:	869	51
Other comprehensive income after income tax	869	34
Total comprehensive income after income tax	1,340	1,132
Attributable to:		
Equity holder of the parent	1,340	1,132

Profit before and after taxation in the separate financial statements of the HKO Group differs from the result in the Consolidated Income Statement of HBOR Group, as IFRS 9 has not been applied in separate financial statements.

Appendix - Financial Performance of the HKO Group (continued)

Statement of Financial Position as of (unaudited)

(All amounts are expressed in HRK thousand)

	Jun 30, 2019 HRK '000	Dec 31, 2018 HRK '000
Assets		
Non-current assets		
Property and equipment	33	50
Intangible assets	133	18
Held to maturity investments	1,352	1,366
Deferred tax	36	-
Total non-current assets	1,554	1,434
Current assets		
Investments available for sale	38,594	42,569
Investments at fair value through profit or loss	5,690	291
Deposits with banks	-	-
Receivables from insurance operations	8,278	8,123
Other receivables	548	446
Cash and cash equivalents	5,158	3,363
Total current assets	58,268	54,792
Total assets	59,822	56,226
Equity and liabilities		
Equity		
Share capital	37,500	37,500
Accumulated losses	2,501	2,237
Other reserves	4,090	3,049
Profit for the year	471	481
Total equity	44,562	43,267
Technical provisions		
Gross technical provisions	17,620	16,969
Technical provisions, reinsurer's share	(8,421)	(8,721)
	9,199	8,248
Current liabilities		
Liabilities from insurance operations	3,563	2,549
Other liabilities	2,498	2,162
Total liabilities	6,061	4,711
Total equity and liabilities	59,822	56,226

Appendix - Financial Performance of the HKO Group

Statement of Cash Flows

for the period 1 January – 30 June (unaudited)

(All amounts are expressed in HRK thousand)

	Jun 30, 2019 HRK '000	Jun 30, 2018 HRK '000
Operating activities		
Profit before income tax	574	1,098
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>		
Depreciation	17	22
Impairment loss and provisions	(273)	20
Income tax	(103)	-
Accrued interest	4	5
<i>Operating profit before working capital changes</i>	<i>219</i>	<i>1,145</i>
Changes in operating assets and liabilities:		
Net decrease in deposits with other banks	-	-
Net realized (gain)/loss on assets available for sale	-	-
Decrease of discount in assets available for sale and assets held to maturity	102	125
Net gain on financial assets at fair value through profit or loss	(229)	(3)
Premium receivables	(183)	5,145
Net decrease/(increase) in other assets	(81)	(78)
Net decrease of assets and liabilities from insurance operations	1,014	683
Net increase in technical provisions	951	189
Net increase in other liabilities	63	(484)
Net cash used in operating activities	1,856	6,722
Investment activities		
Net purchase of financial assets at fair value through profit or loss	-	-
Net sale of financial assets at fair value through profit or loss	-	-
Net purchase of assets available for sale	-	(1,500)
Net sale of assets available for sale	-	-
Purchase of assets held to maturity	-	-
Collection of assets held to maturity when due	-	-
Net purchase of property, plant and equipment and intangible assets	(120)	(70)
Net cash provided investment activities	(120)	(1,570)
Effect of foreign currency to cash and cash equivalents		
Net foreign exchange	66	195
Net effect	66	195
Net increase in cash and cash equivalents	1,802	5,347
Balance as of 1 January	3,363	2,534
Net increase in cash	1,802	5,347
Balance as of 30 June	5,165	7,881

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

	Share capital HRK '000	Retained earnings and reserves HRK '000	Other reserves HRK '000	Profit/(loss) for the year HRK '000	Total equity attributable to the equity holders of the Company HRK '000	Total equity HRK '000
Balance as of 1 January 2018	37,500	1,167	2,999	1,070	42,736	42,736
Profit for the period	-	-	-	1,098	1,098	1,098
Other comprehensive income	-	-	51	-	51	51
Total comprehensive income	-	-	51	1,098	1,149	1,149
Transfer of profit 2017 to retained earnings	-	1,070	-	(1,070)	-	-
Balance as of 30 June 2018	37,500	2,237	3,050	1,098	43,885	43,885
Balance as of 1 January 2019	37,500	2,237	3,049	481	43,267	43,267
Profit for the period	-	-	-	471	471	471
Other comprehensive income	-	-	869	-	869	869
Total comprehensive income	-	-	869	471	1,340	1,340
Transfer of profit 2018 to retained earnings	-	481	-	(481)	-	-
Other adjustments	-	(217)	-	172	(45)	(45)
Balance as of 30 June 2019	37,500	2,501	3,918	643	44,562	44,562