

CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Unaudited Condensed Separate and Consolidated Interim Financial Statements for the Period 1 January – 30 September 2019

Zagreb, November 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.

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Responsibilities of the Management and Supervisory Boards for the preparation and approval of the condensed separate and consolidated interim financial statements for the period 1 January – 30 September 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 4 to 124 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.

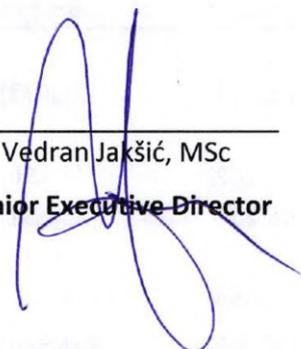
The Management Board has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and the Group and to prevent and detect fraud and other irregularities.

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.

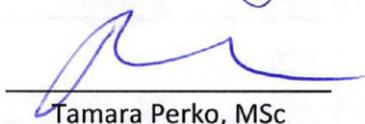
The Management Board is responsible for the submission to the Supervisory Board of its Condensed interim financial statements which includes the condensed separate and consolidated interim financial statements. If the Supervisory Board approves the Condensed interim financial statements it is deemed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

The Condensed separate and consolidated interim financial statements on pages 4 to 124 have been approved by the Management Board on 22 November 2019 as confirmed by the signatures below.

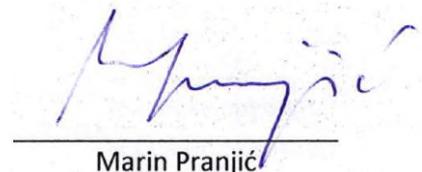
For and on behalf of Croatian Bank for Reconstruction and Development:



Vedran Jakšić, MSc
Senior Executive Director



Tamara Perko, MSc
President of the Management Board



Marin Pranjić
Accounting Division Executive Director



Hrvoje Čuvalo, MSc
Member of the Management Board

Zagreb, 22 November 2019

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

(All amounts are expressed in HRK thousand)

	Notes	2019		2018	
		Current period	Cumulatively	Current period	Cumulatively
		July 1 – September 30 HRK '000	January 1 – September 30 HRK '000	July 1 – September 30 HRK '000	January 1 – September 30 HRK '000
Interest income calculated using the effective interest method	5	161,364	483,347	182,109	563,143
Interest expense	6	(76,208)	(236,716)	(85,698)	(254,991)
Net interest income		85,156	246,631	96,411	308,152
Fee and commission income		4,771	19,268	11,295	36,281
Fee and commission expense		(375)	(2,258)	(1,174)	(3,319)
Net fee and commission income		4,396	17,010	10,121	32,962
Net gains/(losses) on financial operations		2,831	12,758	(11,432)	6,957
Other income		2,704	9,844	3,133	10,974
		95,087	286,243	98,233	359,045
Employee expenses	7 a)	(24,677)	(71,613)	(24,573)	(69,971)
Depreciation and amortization	7 b)	(2,430)	(6,142)	(1,486)	(4,806)
Other expenses	7 c)	(13,623)	(46,250)	(24,332)	(51,104)
Impairment loss and provisions	8	12,394	(17,854)	(145,202)	(134,481)
Profit before income tax		66,751	144,384	(97,360)	98,683
Income tax		(403)	(506)	-	-
Profit for the period		66,348	143,878	(97,360)	98,683
Attributable to:					
Owner of the Bank		66,348	143,878	(97,360)	98,683

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 September

(All amounts are expressed in HRK thousand)

	2019		2018	
	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000
Profit for the period	66,348	143,878	(97,360)	98,683
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	(366)	17,416	2,556	1,808
Net foreign exchange on equity instruments	31	(55)	154	(303)
Deferred tax – other comprehensive income	237	-	(32)	(45)
Total items that may be reclassified subsequently to profit or loss	(98)	17,361	2,678	1,460
Other comprehensive income after income tax	(98)	17,361	2,678	1,444
Total comprehensive income after income tax	66,250	161,239	(94,682)	100,127
Attributable to:				
Owner of the Bank	66,250	161,239	(94,682)	100,127

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	Sep 30, 2019 HRK '000	Dec 31, 2018 HRK '000
Assets			
Cash on hand and current accounts with banks	9	1,634,625	944,417
Deposits with other banks	10	110,037	261,925
Loans to financial institutions	11	9,380,574	10,234,988
Loans to other customers	12	13,427,858	12,510,686
Financial assets at fair value through profit or loss	13	286,766	336,266
Financial assets at fair value through other comprehensive income	14	1,666,150	2,829,470
Debt instruments at amortised cost	15	1,354	1,363
Investments in associates		-	-
Property, plant and equipment and intangible assets		47,664	50,832
Foreclosed assets	16	27,351	25,330
Other assets	17	29,783	23,704
Total assets		26,612,162	27,218,981
Liabilities			
Deposits from customers	18	258,868	429,096
Borrowings	19	14,484,706	14,877,987
Debt securities issued	20	1,134,247	1,150,557
Provisions for guarantees, commitments and other liabilities	21	139,427	321,491
Other liabilities	22	347,594	378,743
Total liabilities		16,364,842	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		84,835	67,474
Profit for the period		143,878	204,737
Guarantee fund		12,120	12,146
Total equity		10,247,320	10,061,107
Total liabilities and total equity		26,612,162	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 September

(All amounts are expressed in HRK thousand)

	Notes	2019 HRK '000	2018 HRK '000
Operating activities			
Profit before income tax		144,384	98,683
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Income tax		(506)	-
Depreciation and amortization		6,142	4,806
Impairment loss and provisions		17,854	134,481
Accrued interest		(30,488)	(27,363)
Deferred fees		(3,962)	(24,131)
Other changes in assets at fair value		(3,757)	9,428
<i>Operating profit before working capital changes</i>		<i>129,667</i>	<i>195,904</i>
<i>Changes in operating assets and liabilities:</i>			
Net decrease in deposits with other banks, before impairment		151,877	29,462
Net decrease in loans to financial institutions, before impairment		897,486	890,056
Net increase in loans to other customers, before loss impairment		(1,140,517)	(252,051)
Net decrease of discount in debt instruments at amortised cost and debt securities issued		2,850	2,782
Net increase in foreclosed assets		(2,116)	(8,277)
Net increase in other assets, before impairment		(8,791)	(9,428)
Net (decrease) in deposits from banks and companies		(170,228)	(432,240)
Net decrease in other liabilities		(31,208)	(68,180)
Net cash (used in)/provided from operating activities		(170,980)	348,028
Investment activities			
Purchase of financial assets at fair value through profit or loss		(2,116)	(1,500)
Sale of financial assets at fair value through profit or loss		57,000	167,661
Other changes in financial assets at fair value through profit or loss		236	631
Purchase of financial assets at fair value through other comprehensive income		(489,685)	(1,856,472)
Sale of financial assets at fair value through other comprehensive income		1,666,899	1,372,138
Net changes of investments in associates		5,500	-
Net purchase of property, plant and equipment and intangible assets		(1,761)	(2,431)
Net cash provided from/(used in) investment activities		1,236,073	(319,973)
Financing activities			
Increase in founder's capital		25,000	50,000
Increase in borrowings – withdrawn funds		2,398,199	1,726,627
Decrease in borrowings – repayments of principal		(2,799,152)	(1,890,555)
Other		(236)	-
Net cash used in from financing activities		(376,189)	(113,928)
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		531	(164,025)
Net effect		531	(164,025)
Net increas/(decrease) in cash and cash equivalents		689,435	(249,898)
Balance as of 1 January, before impairment		946,085	1,404,538
Net increas/(decrease) in cash and cash equivalents		689,435	(249,898)
Balance as of 30 September, before impairment	9	1,635,520	1,154,640
Additional note - Operational cash flows			
Interest paid		244,372	252,010
Interest received		410,710	453,373

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 September

(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	-	-	-	98,683	-	98,683
Other comprehensive income	-	-	1,444	-	-	1,444
Total comprehensive income	-	-	1,444	98,683	-	100,127
Net foreign exchange – Guarantee fund	-	-	-	-	(134)	(134)
Capital paid-in from the State Budget	50,000	-	-	-	-	50,000
Transfer of profit 2017 to retained earnings	-	162,201	-	(162,201)	-	-
Balance as at 30 September 2018	7,059,632	2,717,118	72,161	98,683	12,169	9,959,763
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	-	-	-	143,878	-	143,878
Other comprehensive income	-	-	17,361	-	-	17,361
Total comprehensive income	-	-	17,361	143,878	-	161,239
Net foreign exchange – Guarantee fund	-	-	-	-	(26)	(26)
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 September 2019	7,084,632	2,921,855	84,835	143,878	12,120	10,247,320

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 September

(All amounts are expressed in HRK thousand)

	Notes	2019		2018	
		Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000
Interest income calculated using the effective interest method	5	161,032	482,354	181,785	562,087
Interest expense	6	(76,208)	(236,713)	(85,698)	(254,991)
Net interest income		84,824	245,641	96,087	307,096
Fee and commission income		4,089	17,178	10,809	34,674
Fee and commission expense		(375)	(2,258)	(1,174)	(3,319)
Net fee and commission income		3,714	14,920	9,635	31,355
Net gains/(losses) on financial operations		595	10,353	(11,488)	7,204
Other income		1,224	5,445	1,384	5,958
		90,357	276,359	95,618	351,613
Employee expenses	7 a)	(23,684)	(68,777)	(23,690)	(67,492)
Depreciation and amortization	7 b)	(2,422)	(6,117)	(1,473)	(4,771)
Other expenses	7 c)	(11,994)	(41,599)	(22,521)	(47,207)
Impairment loss and provisions	8	12,428	(18,122)	(145,155)	(134,431)
Profit before income tax		64,685	141,744	(97,221)	97,712
Income tax		-	-	-	-
Profit for the period		64,685	141,744	(97,221)	97,712
Attributable to:					
Owner of the Bank		64,685	141,744	(97,221)	97,712

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 September

(All amounts are expressed in HRK thousand)

	2019		2018	
	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000
Profit for the period	64,685	141,744	(97,221)	97,712
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	951	17,625	2,377	1,559
Net foreign exchange on equity instruments	31	(55)	154	(303)
Total items that may be reclassified subsequently to profit or loss	982	17,570	2,531	1,256
Other comprehensive income after income tax	982	17,570	2,531	1,256
Total comprehensive income after income tax	65,667	159,314	(94,690)	98,968
Attributable to:				
Owner of the Bank	65,667	159,314	(94,690)	98,968

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	Sep 30, 2019 HRK '000	Dec 31, 2018 HRK '000
Assets			
Cash on hand and current accounts with banks	9	1,629,993	941,071
Deposits with other banks	10	110,037	261,925
Loans to financial institutions	11	9,380,574	10,234,988
Loans to other customers	12	13,427,858	12,510,686
Financial assets at fair value through profit or loss	13	278,645	330,803
Financial assets at fair value through other comprehensive income	14	1,626,994	2,792,072
Investments in subsidiaries		36,124	36,124
Investments in associates		-	-
Property, plant and equipment and intangible assets		47,504	50,764
Foreclosed assets	16	27,351	25,330
Other assets	17	25,220	15,164
Total assets		26,590,300	27,198,927
Liabilities			
Deposits from customers	18	258,868	429,096
Borrowings	19	14,484,706	14,877,987
Debt securities issued	20	1,134,247	1,150,557
Provisions for guarantees, commitments and other liabilities	21	139,318	321,361
Other liabilities	22	334,861	365,914
Total liabilities		16,352,000	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		80,448	62,878
Profit for the period		141,744	204,328
Guarantee fund		12,120	12,146
Total equity		10,238,300	10,054,012
Total liabilities and total equity		26,590,300	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 September

(All amounts are expressed in HRK thousand)

	Notes	2019 HRK '000	2018 HRK '000
Operating activities			
Profit before income tax		141,744	97,712
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation and amortization		6,117	4,771
Impairment loss and provisions		18,122	134,431
Accrued interest		(30,635)	(27,618)
Deferred fees		(3,962)	(24,131)
Other changes in assets at fair value		(3,616)	9,201
<i>Operating profit before working capital changes</i>		<i>127,770</i>	<i>194,366</i>
<i>Changes in operating assets and liabilities:</i>			
Net decrease in deposits with other banks, before impairment		151,877	29,462
Net decrease in loans to financial institutions, before impairment		897,486	890,056
Net increase in loans to other customers, before impairment		(1,140,517)	(252,051)
Decrease of discount in debt securities issued		2,838	2,771
Net increase in foreclosed assets		(2,116)	(8,277)
Net increase in other assets, before impairment		(12,806)	(14,709)
Net (decrease) in deposits from banks and companies		(170,228)	(432,240)
Net decrease in other liabilities		(31,053)	(69,271)
Net cash (used in)/provided from operating activities		(176,749)	340,107
Investment activities			
Purchase of financial assets fair value through profit or loss		(1,874)	-
Sale of financial assets at fair value through profit or loss		57,000	167,661
Other changes in financial assets at fair value through profit or loss		236	631
Purchase of financial assets fair value through other comprehensive income		(487,141)	(1,856,472)
Sale of financial assets fair value through other comprehensive income		1,666,397	1,367,138
Net changes of investments in associates		5,500	-
Net purchase of property, plant and equipment and intangible assets		(1,638)	(2,361)
Net cash provided from/(used in) investment activities		1,238,480	(323,403)
Financing activities			
Increase in founder's capital		25,000	50,000
Increase in borrowings – withdrawn funds		2,398,199	1,726,627
Decrease in borrowings – repayments of principle		(2,799,152)	(1,890,555)
Other		1,869	-
Net cash used in from financing activities		(374,084)	(113,928)
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		511	(164,157)
Net effect		511	(164,157)
Net increas/(decrease) in cash and cash equivalents		688,158	(261,381)
Balance as of 1 January, before impairment		942,722	1,402,004
Net increas/(decrease) in cash and cash equivalents		688,158	(261,381)
Balance as at 30 September, before impairment	9	1,630,880	1,140,623
Additional note – operating activities			
Interest paid		244,372	252,010
Interest received		409,462	451,888

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

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

(All amounts are expressed in HRK thousand)

	Founder's capital HRK '000	Retained earnings and reserves HRK '000	Other reserves HRK '000	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	-	-	-	97,712	-	97,712
Other comprehensive income	-	-	1,256	-	-	1,256
Total comprehensive income	-	-	1,256	97,712	-	98,968
Net foreign exchange – Guarantee fund	-	-	-	-	(134)	(134)
Capital paid-in from the State Budget	50,000	-	-	-	-	50,000
Transfer of profit 2017 to retained earnings	-	160,783	-	(160,783)	-	-
Balance as at 30 September 2018	7,059,632	2,715,028	67,463	97,712	12,169	9,952,004
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	-	-	-	141,744	-	141,744
Other comprehensive income	-	-	17,570	-	-	17,570
Total comprehensive income	-	-	17,570	141,744	-	159,314
Net foreign exchange – Guarantee fund	-	-	-	-	(26)	(26)
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 September 2019	7,084,632	2,919,356	80,448	141,744	12,120	10,238,300

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 September 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 September 2019, the Group had 386 employees (on 30 September 2018: 390 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 September 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, Deputy Prime Minister of the Republic of Croatia and 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,
- Marko Pavić, MSc, Minister of Regional Development and EU Funds,
- Marija Vučković, MSc, Minister of Agriculture,
- Gari Cappelli, Minister of Tourism,
- Luka Burilović, DSc, President of the Croatian Chamber of Economy – ex officio Member of the Supervisory Board,
- Grozdana Perić, Chairman of the Finance and Central Budget Committee of the Croatian Parliament,
- Saša Đujić, Member of the Croatian Parliament,
- Božica Makar, Member 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 September 2019, HBOR had 366 employees (30 September 2018: 371 employees).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 September 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 September 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 September 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 September 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 September 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 September 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						
	July 1 –	January 1 –						
	September 30							
	HRK '000							
Public sector	24,439	72,372	23,492	79,648	24,107	71,379	23,168	78,592
State-owned companies	9,148	27,228	7,839	24,124	9,148	27,228	7,839	24,124
Foreign companies	12,557	33,841	8,789	18,219	12,557	33,841	8,789	18,219
Domestic companies	67,732	202,452	85,427	254,710	67,732	202,452	85,427	254,710
Domestic financial institutions	38,167	118,528	48,039	158,292	38,167	118,528	48,039	158,292
Foreign financial institutions	124	585	23	430	124	585	23	430
Penalty interest	4,554	13,765	1,767	7,447	4,554	13,765	1,767	7,447
Other	4,643	14,576	6,733	20,273	4,643	14,576	6,733	20,273
	161,364	483,347	182,109	563,143	161,032	482,354	181,785	562,087

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

	Group				Bank			
	2019		2018		2019		2018	
	Current period	Cumulatively						
	July 1 – September 30	January 1 – September 30	July 1 – September 30	January 1 – September 30	July 1 – September 30	January 1 – September 30	July 1 – September 30	January 1 – September 30
	HRK '000	HRK '000						
Interest on loans								
- financial institutions	38,229	118,596	48,249	158,735	38,229	118,596	48,249	158,735
- other customers	115,259	341,018	125,692	378,581	115,259	341,018	125,692	378,581
	153,488	459,614	173,941	537,316	153,488	459,614	173,941	537,316
Investments in securities	7,680	23,055	8,144	25,389	7,348	22,062	7,820	24,333
- Bonds of the Republic of Croatia	7,559	22,513	7,460	22,535	7,239	21,554	7,147	21,513
- Corporate bonds	28	84	28	85	16	50	17	51
- Treasury bills of the Ministry of Finance	93	458	656	2,769	93	458	656	2,769
Deposits	196	678	24	438	196	678	24	438
	161,364	483,347	182,109	563,143	161,032	482,354	181,785	562,087

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 September 2019 amounts to HRK 37,868 thousand (1 January to 30 September 2018: HRK 54,366 thousand).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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						
	July 1 – September 30	January 1 – September 30	July 1 – September 30	January 1 – September 30	July 1 – September 30	January 1 – September 30	July 1 – September 30	January 1 – September 30
	HRK '000	HRK '000						
Domestic financial institutions	1,360	5,017	1,618	2,878	1,360	5,017	1,618	2,878
Foreign financial institutions	74,774	231,592	84,080	252,113	74,774	231,592	84,080	252,113
Other	74	107	-	-	74	104	-	-
	76,208	236,716	85,698	254,991	76,208	236,713	85,698	254,991

Interest expense by type of facility:

	Group				Bank			
	2019		2018		2019		2018	
	Current period	Cumulatively						
	July 1 – September 30	January 1 – September 30	July 1 – September 30	January 1 – September 30	July 1 – September 30	January 1 – September 30	July 1 – September 30	January 1 – September 30
	HRK '000	HRK '000						
Borrowings	58,333	183,515	67,873	202,261	58,333	183,515	67,873	202,261
Debt securities	17,723	52,730	17,764	52,656	17,723	52,730	17,764	52,656
Deposits	78	364	61	74	78	364	61	74
Leases – interest expenses on long term contracts	74	107	-	-	74	104	-	-
	76,208	236,716	85,698	254,991	76,208	236,713	85,698	254,991

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

(All amounts are expressed in HRK thousand)

7. Operating expenses

Operating expenses can be shown as follows:

	Group				Bank			
	2019		2018		2019		2018	
	Current period	Cumulatively						
	July 1 –	January 1 –						
	September 30							
	HRK '000							
7 a) Employee expenses	24,677	71,613	24,573	69,971	23,684	68,777	23,690	67,492
7 b) Depreciation	2,430	6,142	1,486	4,806	2,422	6,117	1,473	4,771
7 c) Other expenses	13,623	46,250	24,332	51,104	11,994	41,599	22,521	47,207
Of which:								
Administration expenses	(812)	13,112	2,609	12,262	(911)	12,804	2,571	12,089
Material and services	7,329	20,785	8,426	21,313	6,953	19,633	7,801	19,959
Other expenses	7,106	12,353	13,297	17,529	5,952	9,162	12,149	15,159
	40,730	124,005	50,391	125,881	38,100	116,493	47,684	119,470

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

(All amounts are expressed in HRK thousand)

7. Operating expenses (continued)

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

	Group				Bank			
	2019		2018		2019		2018	
	Current period	Cumulatively						
	July 1 – September 30	January 1 – September 30	July 1 – September 30	January 1 – September 30	July 1 – September 30	January 1 – September 30	July 1 – September 30	January 1 – September 30
	HRK '000	HRK '000						
Change in the claims provision	(2,769)	(2,013)	966	1,561	-	-	-	-
Change in the claims provision, reinsurer's share	948	1,106	(474)	(728)	-	-	-	-
Expenses of insurance operations	(1,821)	(907)	492	833	-	-	-	-

Loss provisions as at 30 September 2019 consisted of reported and unreported losses in the approximate proportion 30:70. At the end of the third quarter 2019, total provisions were lower compared to the end of 2018 by 22%. 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 September 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						
	July 1 – September 30	January 1 – September 30	July 1 – September 30	January 1 – September 30	July 1 – September 30	January 1 – September 30	July 1 – September 30	January 1 – September 30
	HRK '000	HRK '000						
Impairment losses on cash on hand and due from financial institutions	96	(775)	197	188	96	(766)	197	188
Impairment losses on deposits with other banks	(352)	81	(6)	(146)	(352)	81	(6)	(146)
Impairment losses on loans to financial institutions	(5,062)	(45,758)	(208)	(14,708)	(5,062)	(45,758)	(208)	(14,708)
Impairment losses on loans to other customers and interest	(19,852)	197,658	34,574	(94,570)	(19,852)	197,658	34,574	(94,570)
Modification loss/(gain) – financial institutions	(936)	6,191	(18)	2,206	(936)	6,191	(18)	2,206
Modification (gain)/loss – other customers	11,487	23,834	26	(1,018)	11,487	23,834	26	(1,018)
POCI assets – fair value adjustment at initial recognition	1,440	20,459	19,019	43,816	1,440	20,459	19,019	43,816
Impairment of financial assets at fair value through other comprehensive income	(31)	(3,465)	271	1,453	(31)	(3,239)	277	1,459
Impairment losses on Debt instruments at amortised cost	-	(1)	-	-	-	-	-	-
Impairment losses on other assets	(949)	1,519	4,830	16,684	(983)	1,531	4,778	16,618
Provisions for commitments	(2,879)	(27,647)	(1,183)	65,317	(2,879)	(27,647)	(1,183)	65,317
Provision for guarantees	4,305	(151,060)	87,518	132,305	4,305	(151,060)	87,518	132,305
Total	(12,733)	21,036	145,020	151,527	(12,767)	21,284	144,974	151,467

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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
	July 1 –	January 1 –	July 1 –	January 1 –	July 1 –	January 1 –	July 1 –	January 1 –
	September 30	September 30	September 30	September 30	September 30	September 30	September 30	September 30
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Impairment losses on foreclosed assets	-	95	(10)	(60)	-	95	(10)	(60)
Value adjustment from previous years	482	482	-	-	482	482	-	-
Provision for other liabilities	(143)	(3,759)	192	(16,986)	(143)	(3,739)	191	(16,976)
Total	339	(3,182)	182	(17,046)	339	(3,162)	181	(17,036)
Total	(12,394)	17,854	145,202	134,481	(12,428)	18,122	145,155	134,431

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

(All amounts are expressed in HRK thousand)

9. Cash on hand and current accounts with banks

	Group		Bank	
	30 September 2019 HRK 000	31 December 2018 HRK 000	30 September 2019 HRK 000	31 December 2018 HRK 000
Account with the Croatian National Bank	438,163	921,278	438,163	921,278
Cash on hand	2	2	2	2
Foreign currency account - domestic banks	492	6,232	489	6,231
Foreign currency account - foreign banks	1,194,848	18,129	1,192,226	15,211
Domestic currency account - domestic banks	2,015	444	-	-
	1,635,520	946,085	1,630,880	942,722
Loss allowances	(895)	(1,668)	(887)	(1,651)
	1,634,625	944,417	1,629,993	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 September 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	1,635,518	-	-	1,635,518	1,630,878	-	-	1,630,878
Loss allowances	(895)	-	-	(895)	(887)	-	-	(887)
Balance as of 30 September 2019	1,634,623	-	-	1,634,623	1,629,991	-	-	1,629,991

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	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 September 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 – Sep 30, 2019 HRK 000	Jan 1 - Dec 31, 2018 HRK 000	Jan 1 –Sep 30, 2019 HRK 000	Jan 1 - Dec 31, 2018 HRK 000
Balance as of 1 January	1,668	41	1,651	41
Net (decrease)/increase of loss allowances on amounts due from banks	(775)	1,625	(766)	1,608
<i>Total recognised through Income Statement (Note 8)</i>	<i>(775)</i>	<i>1,625</i>	<i>(766)</i>	<i>1,608</i>
Net foreign exchange losses on loss allowances	2	2	2	2
Balance at the end of the reporting period	895	1,668	887	1,651

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

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Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 30 September 2019 (continued)

(All amounts are expressed in HRK thousand)

10. Deposits with other banks

	30 September 2019 HRK '000	Group 31 December 2018 HRK '000	30 September 2019 HRK '000	Bank 31 December 2018 HRK '000
Deposits with foreign banks	370	-	370	-
Deposits with domestic banks	111,034	263,283	111,034	263,283
Accrued interest	73	3	73	3
	111,477	263,286	111,477	263,286
Loss allowances	(1,440)	(1,361)	(1,440)	(1,361)
	110,037	261,925	110,037	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 September 2019	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Group Total HRK 000	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Bank Total HRK 000
Gross amount	111,477	-	-	111,477	111,477	-	-	111,477
Loss allowances	(1,440)	-	-	(1,440)	(1,440)	-	-	(1,440)
Balance as of 30 September 2019	110,037	-	-	110,037	110,037	-	-	110,037

31 December 2018	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Group Total HRK 000	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Bank Total 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 September 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:

	Jan 1 – Sep 30, 2019 HRK 000	Group Jan 1 - Dec 31, 2018 HRK 000	Jan 1 – Sep 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	81	1,216	81	1,216
<i>Total recognised through Income Statement (Note 8)</i>	<i>81</i>	<i>1,216</i>	<i>81</i>	<i>1,216</i>
Net foreign exchange gain on loss allowances	(2)	(7)	(2)	(7)
Balance at the end of the reporting period	1,440	1,361	1,440	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 September 2019 (continued)

(All amounts are expressed in HRK thousand)

11. Loans to financial institutions

	Group and Bank	
	30 September 2019 HRK '000	31 December 2018 HRK '000
Long-term loans under loan programmes	9,357,322	9,695,037
Short-term loans and reverse repo transactions	125,170	691,269
Accrued interest	6,318	7,350
Deferred recognition of loan origination fees	(36,865)	(41,514)
	9,451,945	10,352,142
Loss allowances	(71,371)	(117,154)
	9,380,574	10,234,988

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 September 2019	Group and Bank			
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Total HRK 000
Gross amount	9,315,895	106,251	29,799	9,451,945
Loss allowances	(45,271)	(13,183)	(12,917)	(71,371)
Balance as of 30 September 2019	9,270,624	93,068	16,882	9,380,574

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	10,064,840	137,737	32,411	10,234,988

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

	Jan 1 - Sep 30, 2019 HRK 000	Group and Bank Jan 1 - Dec 31, 2018 HRK 000
Balance as of 1 January	117,154	131,020
Net decrease of loss allowances on loans to financial institutions	(45,758)	(13,149)
<i>Total recognised through Income Statement (Note 8)</i>	<i>(45,758)</i>	<i>(13,149)</i>
Net foreign exchange gain on loss allowances	(134)	(964)
Loss allowances transferred to loans to other customers	(3)	(28)
Unwinding – changes due to the lapse of time	112	275
Balance at the end of the reporting period	71,371	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 September 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 September 2019 HRK '000	Group and Bank 31 December 2018 HRK '000
Loan programme for reconstruction and development of the economy	1,747,284	1,915,895
Export financing	2,184,430	2,448,494
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	1,283,458	1,130,702
Loan programme for small and medium-sized enterprises	4,136,086	4,192,912
Loan programme for war-torn and demolished housing and business facilities	6,064	7,034
Other	125,170	691,269
Accrued interest	6,318	7,350
Deferred recognition of loan fees	(36,865)	(41,514)
	<u>9,451,945</u>	<u>10,352,142</u>
Loss allowances	(71,371)	(117,154)
	<u>9,380,574</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 September 2018: 0.77%) 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 25,170 thousand (31 December 2018: HRK 691,269 thousand). The above placements are collateralized by securities in the amount of HRK 26,417 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 September 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 September 2019 HRK '000	31 December 2018 HRK '000
Domestic companies	10,926,437	10,252,669
State-owned companies	1,055,730	1,103,711
Public sector	3,620,962	2,995,506
Foreign companies	662,340	787,639
Non-profit institutions	5,900	5,902
Other	557,119	588,164
Accrued interest	267,373	251,405
Deferred recognition of loan origination fees	(88,073)	(94,014)
	17,007,788	15,890,982
Loss allowances	(3,579,930)	(3,380,296)
	13,427,858	12,510,686

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 September 2019	Group and Bank				
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	POCI HRK 000	Total HRK 000
Gross amount	10,350,429	1,782,197	4,388,136	487,026	17,007,788
Loss allowances	(308,110)	(604,299)	(2,536,682)	(130,839)	(3,579,930)
Balance as of 30 September 2019	10,042,319	1,177,898	1,851,454	356,187	13,427,858

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	9,408,775	1,141,971	1,728,419	231,521	12,510,686

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

	Jan 1 - Sep 30, 2019 HRK 000	Group and Bank Jan 1 - Dec 31, 2018 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	197,658	(211,161)
<i>Total recognised through Income Statement (Note 8)</i>	<u>197,658</u>	<u>(211,161)</u>
Net foreign exchange losses/(gain) on loss allowances	5,604	(15,114)
Write-offs	(25,481)	(43,258)
Write-off due to sale of receivables	(51)	-
Loss allowances transferred from loans to financial institutions	3	28
Unwinding – changes due to the lapse of time	25,415	57,089
Acquisition of immovable property	(3,910)	(989)
Collection of Interest transferred from the off-balance sheet records and other	396	496
Balance at the end of the reporting period	<u>3,579,930</u>	<u>3,380,296</u>

Net foreign exchange (losses)/gain 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 September 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 programmes as follows:

	30 September 2019 HRK '000	Group and Bank 31 December 2018 HRK '000
Loan programme for reconstruction and development of the economy	3,796,304	3,588,290
Export financing	5,315,283	5,428,712
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	4,280,759	3,771,861
Loan programme for small and medium-sized enterprises	1,663,353	1,818,620
Other	1,772,789	1,126,108
Accrued interest	267,373	251,405
Deferred recognition of loan origination fees	(88,073)	(94,014)
	<u>17,007,788</u>	<u>15,890,982</u>
Loss allowances	(3,579,930)	(3,380,296)
	<u>13,427,858</u>	<u>12,510,686</u>

Average interest rates on loans to other customers, at year level, are stated at 1.69% (1 January – 30 September 2018: 1.83%).

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 September 2019 (continued)

(All amounts are expressed in HRK thousand)

13. Financial assets at fair value through profit or loss

	Group		Bank	
	30 September 2019 HRK '000	31 December 2018 HRK '000	30 September 2019 HRK '000	31 December 2018 HRK '000
Loans at FVPL:				
Mezzanine loans	2,039	2,045	2,039	2,045
	2,039	2,045	2,039	2,045
Investments in investment				
Investments in investment funds at FVPL	284,535	334,060	276,414	328,597
	284,535	334,060	276,414	328,597
Unlisted equity instruments:				
Investments in corporate shares	31	-	31	-
Investments in financial institutions' shares	161	161	161	161
	192	161	192	161
	286,766	336,266	278,645	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).

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

(All amounts are expressed in HRK thousand)

14. Financial assets at fair value through other comprehensive income

	Group		Bank	
	30 September 2019	31 December 2018	30 September 2019	31 December 2018
	HRK '000	HRK '000	HRK '000	HRK '000
Debt instruments:				
Listed debt instruments:				
Bonds of the Republic of Croatia	1,228,945	1,124,611	1,190,881	1,088,457
Corporate bonds	770	770	-	-
Treasury bills of the Ministry of Finance	399,866	1,666,299	399,866	1,666,299
Accrued interest	9,615	11,313	9,293	10,839
	1,639,196	2,802,993	1,600,040	2,765,595
Unlisted debt instruments:				
Corporate bonds	568	535	568	535
Accrued interest	283	233	283	233
	851	768	851	768
Equity instruments:				
Unlisted equity instruments:				
Investments in shares of foreign legal entities - SWIFT	40	38	40	38
Shares of foreign financial institutions –	26,063	25,671	26,063	25,671
	26,103	25,709	26,103	25,709
	1,666,150	2,829,470	1,626,994	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 September 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	1,639,196	-	851	1,640,047	1,600,040	-	851	1,600,891
Balance as of 30 September 2019	1,639,196	-	851	1,640,047	1,600,040	-	851	1,600,891

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 September 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 – Sep 30, 2019 HRK 000	Jan 1 – Dec 31, 2018 HRK 000	Jan 1 - Sep 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	(3,465)	2,477	(3,239)	2,481
<i>Total recognised through Income Statement (Note 8)</i>	<i>(3,465)</i>	<i>2,477</i>	<i>(3,239)</i>	<i>2,481</i>
Net foreign exchange gain on loss allowances	(4)	(19)	(4)	(19)
Balance at the end of the reporting period	3,277	6,746	3,216	6,459

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

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Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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 September 2019 HRK '000	Group 31 December 2018 HRK '000	30 September 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	99,076	44,711	98,176	43,777
RHMF-O-227E	22.7.2011.	22.7.2022.	6.5	165,673	169,815	165,673	169,815
RHMF-O-247E	10.7.2013.	10.7.2024.	5.75	18,477	18,083	13,048	12,728
RHMF-O-203E	5.3.2010.	5.3.2020.	6.5	762	797	-	-
RHMF-O222E	5.2.2019.	05.02.22	0.5	14,925	-	14,925	-
<i>Bonds of the Republic of Croatia in foreign currency:</i>							
XS1117298916	11.3.2015.	11.3.2025.	3.0	59,583	55,867	59,583	55,867
XS1843434876	19.6.2019.	19.10.2029.	1.125	15,690	-	15,690	-
<i>Bonds of the Republic of Croatia in HRK:</i>							
RHMF-O-203A	5.3.2010.	5.3.2020.	6.75	33,555	35,074	30,854	32,270
RHMF-O-257A	9.7.2015.	9.7.2025.	4.5	10,358	9,861	-	-
RHMF-O-26CA	14.12.2015.	14.12.2026.	4.25	48,065	44,544	38,024	35,261
RHMF-O-217A	8.7.2016.	8.7.2021.	2.75	228,074	229,636	225,975	227,522
RHMF-O-222A	7.2.2017.	7.2.2022.	2.25	73,437	73,106	73,437	73,106
RHMF-O-282A	7.2.2017.	7.2.2028.	2.875	14,153	12,653	11,904	10,641
RHMF-O-023BA	27.11.2017.	27.11.2023.	1.75	443,592	427,470	443,592	427,470
RHMF-O-297A	9.7.2018.	9.7.2029.	2.38	3,525	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			0.069-0.086	399,866	1,369,700	399,866	1,369,700
Treasury bills in foreign currency up to 455 days			0.093	-	296,599	-	296,599
Accrued interest				9,615	11,313	9,293	10,839
				1,639,196	2,802,993	1,600,040	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	568	535	568	535
Accrued interest				283	233	283	233
				851	768	851	768
Equity instruments:							
<i>Unlisted equity instruments:</i>							
Investments in shares of foreign legal entities - SWIFT				40	38	40	38
Investments in shares of foreign financial institutions - EIF				26,063	25,671	26,063	25,671
				26,103	25,709	26,103	25,709
				1,666,150	2,829,470	1,626,994	2,792,072

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 30 September 2019 (continued)

(All amounts are expressed in HRK thousand)

15. Debt instruments at amortised cost

	Group		Bank	
	30 September 2019 HRK '000	31 December 2018 HRK '000	30 September 2019 HRK '000	31 December 2018 HRK '000
Debt instruments:				
Listed debt instruments:				
Bonds of the Republic of Croatia	1,337	1,352	-	-
Accrued interest	18	13	-	-
	<u>1,355</u>	<u>1,365</u>	-	-
Loss allowances	(1)	(2)	-	-
	<u>1,354</u>	<u>1,363</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 September 2019	Stage 1	Stage 2	Stage 3	Group	Stage 1	Stage 2	Stage 3	Bank
	HRK 000	HRK 000	HRK 000	Total HRK 000	HRK 000	HRK 000	HRK 000	Total HRK 000
Gross amount	1,355	-	-	1,355	-	-	-	-
Loss allowances	(1)	-	-	(1)	-	-	-	-
Balance as of 30 September 2019	1,354	-	-	1,354	-	-	-	-

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

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

	Group		Bank	
	Jan 1 - Sep 30, 2019 HRK '000	Jan 1 - Dec 31, 2018 HRK '000	Jan 1 - Sep 30, 2019 HRK '000	Jan 1 - Dec 31, 2018 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	1	2	-	-

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-203E) issued with foreign currency clause on 5 March 2010 are repayable over 10 years with an interest rate of 6.5%. As of 30 September 2019, the value of these outstanding bonds amounted to HRK 447 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 September 2019, the value of these outstanding bonds amounted to HRK 890 thousand (31 December 2018: HRK 898 thousand).

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

(All amounts are expressed in HRK thousand)

16. Foreclosed assets

	30 September 2019 HRK '000	Group 31 December 2018 HRK '000	30 September 2019 HRK '000	Bank 31 December 2018 HRK '000
Foreclosed assets, net	27,351	25,330	27,351	25,330
	27,351	25,330	27,351	25,330

In the reporting period 2019, acquisition of property took place with present value in the amount of HRK 3,072 thousand, acquisition value of HRK 11,609 thousand and provisions of HRK 8,537 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 September 2019 amounted to HRK 11,609 thousand.

In the period 1 January - 30 September 2019 sale of foreclosed assets took place with present value in the amount of HRK 1,769 thousand, acquisition value of HRK 5,756 thousand and provisions of HRK 3,987 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 1,140 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 67 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 47,459 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 September 2018: decrease of HRK 60 thousand).

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

(All amounts are expressed in HRK thousand)

17. Other assets

	30 September 2019 HRK '000	Group 31 December 2018 HRK '000	30 September 2019 HRK '000	Bank 31 December 2018 HRK '000
Fees receivable	27,784	27,161	27,784	27,161
Other receivables	13,993	11,070	13,993	10,904
Prepaid expenses	2,293	3,002	2,191	3,002
Accrued income	10,302	6,437	10,301	6,437
Premium receivables	3,590	7,371	-	-
Receivables for reinsurance commissions	636	867	-	-
Receivables for risk assessment fees	326	371	-	-
Deferred tax assets	46	-	-	-
Leased assets	5,423	-	5,361	-
Other assets	1,034	1,543	993	1,543
	65,427	57,822	60,623	49,047
Loss allowances	(35,644)	(34,118)	(35,403)	(33,883)
	29,783	23,704	25,220	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 September 2019					Group					Bank	
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	POCI HRK 000	Total HRK 000	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	POCI HRK 000	Total HRK 000	
Gross amount	9,269	1	37,025	34	46,329	4,717	1	37,025	34	41,777	
Loss allowances	(272)	-	(35,367)	(5)	(35,644)	(31)	-	(35,367)	(5)	(35,403)	
Balance as of 30 September 2019	8,997	1	1,658	29	10,685	4,686	1	1,658	29	6,374	

31 December 2018					Group					Bank	
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	POCI HRK 000	Total HRK 000	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	POCI HRK 000	Total 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 September 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 September 2019	31 December 2018	30 September 2019	31 December 2018
	HRK '000	HRK '000	HRK '000	HRK '000
Fees receivable	27,784	27,161	27,784	27,161
Other receivables	13,993	11,070	13,993	10,904
Premium receivables	3,590	7,371	-	-
Receivables for reinsurance commissions	636	867	-	-
Receivables for risk assessment fees	326	371	-	-
	46,329	46,840	41,777	38,065
Loss allowance	(35,644)	(34,118)	(35,403)	(33,883)
Subtotal – credit risk	10,685	12,722	6,374	4,182

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

	Group		Bank	
	Jan 1 - Sep 30, 2019	Jan 1 - Dec 31, 2018	Jan 1 - Sep 30, 2019	Jan 1 - Dec 31, 2018
	HRK 000	HRK 000	HRK 000	HRK 000
Balance as of 1 January	34,118	13,223	33,883	13,087
Net increase of loss allowances on other assets	1,519	20,915	1,531	20,814
<i>Total recognised through Income statement (Note 8)</i>	<i>1,519</i>	<i>20,915</i>	<i>1,531</i>	<i>20,814</i>
Write-offs	(8)	(10)	(4)	(10)
Acquisition of immovable property	-	(14)	-	(14)
Net foreign exchange gain/(losses) on loss allowances	(7)	6	(7)	6
Other adjustments	22	(2)	-	-
Balance at the end of the reporting period	35,644	34,118	35,403	33,883

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 September 2019 (continued)

(All amounts are expressed in HRK thousand)

18. Deposits from customers

	Group		Bank	
	30 September 2019 HRK '000	31 December 2018 HRK '000	30 September 2019 HRK '000	31 December 2018 HRK '000
Bank deposits	764	149,140	764	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	25,840	22,593	25,840	22,593
Foreign currency special purpose accounts of the companies	12,038	10,725	12,038	10,725
State institutions' deposits	208,377	237,972	208,377	237,972
Other deposits	11,843	8,660	11,843	8,660
	258,868	429,096	258,868	429,096

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 12,329 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 7,413 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 6,098 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 September 2019 (continued)

(All amounts are expressed in HRK thousand)

19. Borrowings

	30 September 2019 HRK '000	Group and Bank 31 December 2018 HRK '000
Balance as of 1 January	14,863,426	15,399,788
New borrowings	2,398,199	2,284,763
Repayments	(2,799,152)	(2,658,936)
Net foreign exchange gains	1,318	(162,189)
	<u>14,463,791</u>	<u>14,863,426</u>
Accrued interest	54,843	55,014
Deferred fees	(33,928)	(40,453)
	<u>14,484,706</u>	<u>14,877,987</u>

The Bank is subject to various financial clauses from the Contract. On 30 September 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 September 2019 HRK '000	Net book value 30 September 2019 HRK '000	Fair value 31 December 2018 HRK '000	Net book value 31 December 2018 HRK '000
Bonds EUR 150 million	6.37	1,152,410	1,107,954	1,190,721	1,107,413
Accrued interest		-	26,393	-	43,347
Deferred fees		-	(100)	-	(203)
		<u>1,152,410</u>	<u>1,134,247</u>	<u>1,190,721</u>	<u>1,150,557</u>

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 September 2019 (continued)

(All amounts are expressed in HRK thousand)

21. Provisions for guarantees, commitments and other liabilities

	Group		Bank	
	30 September 2019 HRK '000	31 December 2018 HRK '000	30 September 2019 HRK '000	31 December 2018 HRK '000
Provisions for guarantees and commitments	82,979	261,283	82,979	261,283
Provisions for other liabilities	56,448	60,208	56,339	60,078
	139,427	321,491	139,318	321,361

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

	Group		Bank	
	Jan 1 - Sep 30, 2019 HRK '000	Jan 1 - Dec 31, 2018 HRK '000	Jan 1 - Sep 30, 2019 HRK '000	Jan 1 - Dec 31, 2018 HRK '000
Balance as of 1 January	261,283	49,347	261,283	49,347
Net (release)/increase of loss allowances on guarantees	(151,060)	141,180	(151,060)	141,180
<i>Total recognised through Income Statement (Note 8)</i>	<i>(151,060)</i>	<i>141,180</i>	<i>(151,060)</i>	<i>141,180</i>
Net (release)/increase of loss allowances on commitments	(27,647)	68,931	(27,647)	68,931
Total recognised through Income Statement (Note 8)	(27,647)	68,931	(27,647)	68,931
Net foreign exchange on loss allowances	403	1,825	403	1,825
Balance at the end of the reporting period - Provisions for guarantees and commitments	82,979	261,283	82,979	261,283
Balance as of 1 January	60,208	76,980	60,078	76,723
Net (release) of loss allowances on other liabilities	(3,760)	(16,918)	(3,739)	(16,789)
<i>Total recognised through Income Statement (Note 8)</i>	<i>(3,760)</i>	<i>(16,918)</i>	<i>(3,739)</i>	<i>(16,789)</i>
Unrealized actuarial gains	-	144	-	144
Other adjustments	-	2	-	-
Balance at the end of the reporting period - Provisions for other liabilities	56,448	60,208	56,339	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 September 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 6,209 thousand relates to financial institutions (31 December 2018: HRK 2,444 thousand), HRK 76,339 thousand relates to domestic companies (31 December 2018: HRK 258,622 thousand), HRK 20 thousand relates to the public sector (31 December 2018: HRK 147 thousand), HRK 411 thousand relates to other (31 December 2018: HRK 70 thousand).

22. Other liabilities

	Group		Bank	
	30 September 2019 HRK '000	31 December 2018 HRK '000	30 September 2019 HRK '000	31 December 2018 HRK '000
Deferred recognition of interest income	178,423	226,064	178,423	226,064
Liabilities in respect of subsidized interest	127,749	120,726	127,749	120,726
Accrued salaries	7,212	7,405	7,021	7,218
Liabilities to suppliers	1,879	2,766	1,846	2,662
Liabilities for prepaid receivables	2,829	2,378	2,829	2,378
Deferrable premium	3,131	2,880	-	-
Provisions for claims	3,497	4,527	-	-
Provisions for return premiums	925	791	-	-
Liabilities to re-insurers	2,540	2,407	-	-
Deferred tax liabilities	1,220	669	-	-
Lease liabilities	5,407	-	5,344	-
Other liabilities	12,782	8,130	11,649	6,866
	347,594	378,743	334,861	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 127,666 thousand in respect of the Programme of Preferential Financing through HBOR's Loan Programmes (31 December 2018: HRK 120,433 thousand),
- HRK 27 thousand in respect of the Programme Female Entrepreneurship – interest rate subsidy, Ministry of the Economy, Entrepreneurship and Trade (31 December 2018: HRK 0 thousand),
- HRK 56 thousand in respect of the Programme Youth Entrepreneurship and/or Start-Ups - interest rate subsidy, Ministry of the Economy, Entrepreneurship and Trade (31 December 2018: HRK 0 thousand),
- HRK 0 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 178,423 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 11,071 thousand (31 December 2018: HRK 7,694 thousand), and in respect of those already in repayment stage amounting to HRK 167,352 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 September 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 September 2019 HRK '000	31 December 2018 HRK '000
Guarantees issued in HRK	65,583	33,917
Guarantees issued in foreign currency	443,805	1,994,851
Undrawn loans	3,722,623	3,379,519
Open letters of credit in foreign currency	855	-
EIF – subscribed, not called up capital	47,374	47,472
Other irrevocable contingent liabilities	93	93
	<u>4,280,333</u>	<u>5,455,852</u>
Provisions for guarantees and commitments	(82,979)	(261,283)
	<u>4,197,354</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:

	Group and Bank					
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	POCI HRK 000	Not subject to IFRS 9 HRK 000	Total HRK 000
30 September 2019						
Gross amount	3,192,717	576,658	407,385	55,343	855	4,232,958
Loss allowances	(8,752)	(49,520)	(21,298)	(3,409)	-	(82,979)
Balance as of 30 September 2019	<u>3,183,965</u>	<u>527,138</u>	<u>386,087</u>	<u>51,934</u>	<u>855</u>	<u>4,149,979</u>

	Group and Bank					
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	POCI HRK 000	Not subject to IFRS 9 HRK 000	Total HRK 000
31 December 2018						
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>-</u>	<u>5,147,097</u>

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Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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 58%, 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 September 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 September 2019 and 31 December 2018, and income and expense for the period 1 January to 30 September 2019 and for the period 1 January to 30 September 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 September	30 September	31 December	31 December
	2019	2019	2018	2018
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	3,667,666	279,572	4,335,942	189,014
Government funds, executive authorities and agencies	1,026,236	73,430	1,044,262	189,877
State-owned companies	1,192,602	18	1,118,540	19
Associates	4	-	40	10
Key management personnel	3,831	1,967	4,498	2,117
Total	5,890,339	354,987	6,503,282	381,037

Group	Income	Expense	Income	Expense
	Jan 1 – Sep 30			
	2019	2019	2018	2018
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	46,109	560	42,314	5,330
Government funds, executive authorities and agencies	27,182	675	142,217	780
State-owned companies	51,676	22,393	45,801	15,438
Associates	226	-	10	3
Key management personnel	174	7,190	110	7,297
Total	125,367	30,818	230,452	28,848

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

(All amounts are expressed in HRK thousand)

24. Related-party transactions (continued)

a) Related-party transactions (continued)

Bank	Assets		Liabilities	
	30 September 2019	30 September 2019	31 December 2018	31 December 2018
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	3,667,666	279,572	4,335,942	189,014
Government funds, executive authorities and agencies	986,485	73,387	1,006,177	189,666
State-owned companies	1,192,593	16	1,117,758	17
Subsidiary companies	36,124	-	36,124	-
Associates	4	-	40	10
Key management personnel	3,756	1,862	4,412	2,014
Total	5,886,628	354,837	6,500,453	380,721

Bank	Income		Expense	
	Jan 1 – Sep 30 2019	Jan 1 – Sep 30 2019	Jan 1 – Sep 30 2018	Jan 1 – Sep 30 2018
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	46,109	560	42,314	5,330
Government funds, executive authorities and agencies	26,142	515	141,142	263
State-owned companies	51,676	22,340	45,801	15,367
Subsidiary companies	-	-	-	-
Associates	226	-	10	3
Key management personnel	170	6,100	103	6,521
Total	124,323	29,515	229,370	27,484

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 September 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Related-party transactions (continued)

b) Collaterals received

	Group		Bank	
	30 September 2019 HRK '000	31 December 2018 HRK '000	30 September 2019 HRK '000	31 December 2018 HRK '000
The Republic of Croatia	3,099,400	4,192,023	3,099,178	4,096,373
State agencies	432,203	471,641	432,203	471,641
Total	3,531,603	4,663,664	3,531,381	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 7,020 thousand (1 January to 30 September 2018: HRK 6,971 thousand), and for the Bank amounted to HRK 6,012 thousand (1 January to 30 September 2018: HRK 6,311 thousand).

Remuneration for the work of the members of the Supervisory Board for the Group amounted to HRK 170 thousand (1 January to 30 September 2018: HRK 206 thousand) and for the Bank amounted to HRK 88 thousand (1 January to 30 September 2018: HRK 90 thousand) and it relates to the members of supervisory boards at associates and subsidiaries who were appointed by HBOR.

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Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 September 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 September 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 September 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 September 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, 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 September 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 September 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 September 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 September 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 September 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 September 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 September 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 September 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 September 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 September 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 September 2019, the highest credit exposure of the Group to one debtor equalled HRK 2,520,737 thousand and of the Bank HRK 2,516,097 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 September 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 September 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 September 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 September 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 September 2019 HRK '000	31 December 2018 HRK '000	30 September 2019 HRK '000	31 December 2018 HRK '000
Assets				
Cash on hand and current accounts with banks	1,634,623	944,415	1,629,991	941,069
Deposits with other banks	110,037	261,925	110,037	261,925
Loans to financial institutions	9,380,574	10,234,988	9,380,574	10,234,988
Loans to other customers	13,427,858	12,510,686	13,427,858	12,510,686
Financial assets at fair value through profit or loss	2,039	2,045	2,039	2,045
Financial assets at fair value through other comprehensive income	1,640,047	2,803,761	1,600,891	2,766,363
Debt instruments at amortised cost	1,354	1,363	-	-
Other assets	10,685	12,722	6,374	4,182
Total	26,207,217	26,771,905	26,157,764	26,721,258
Guarantees and commitments				
Guarantees issued in HRK	64,927	33,576	64,927	33,576
Issued guarantees in foreign currency	422,142	1,822,396	422,142	1,822,396
Open letters of credit in foreign currency	855	-	855	-
Undrawn loans	3,661,962	3,291,032	3,661,962	3,291,032
Other irrevocable contingent liabilities	93	93	93	93
Total	4,149,979	5,147,097	4,149,979	5,147,097
Total credit risk exposure	30,357,196	31,919,002	30,307,743	31,868,355

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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 September 2019	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	442,869	1,173,271	18,483	1,634,623
Deposits with other banks	109,667	370	-	110,037
Loans to financial institutions	9,380,574	-	-	9,380,574
Loans to other customers	12,922,670	-	505,188	13,427,858
Financial assets at fair value through profit or loss	2,039	-	-	2,039
Financial assets at fair value through other comprehensive income	1,640,047	-	-	1,640,047
Debt instruments at amortised cost	1,354	-	-	1,354
Other assets	7,901	2,784	-	10,685
Total	24,507,121	1,176,425	523,671	26,207,217
Guarantees and commitments				
Guarantees issued in HRK	64,927	-	-	64,927
Issued guarantees in foreign currency	422,142	-	-	422,142
Open letters of credit in foreign currency	855	-	-	855
Undrawn loans	3,326,415	-	335,547	3,661,962
Other irrevocable contingent liabilities	93	-	-	93
Total	3,814,432	-	335,547	4,149,979
Total credit risk exposure	28,321,553	1,176,425	859,218	30,357,196

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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 September 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 September 2019	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	438,237	1,173,271	18,483	1,629,991
Deposits with other banks	109,667	370	-	110,037
Loans to financial institutions	9,380,574	-	-	9,380,574
Loans to other customers	12,922,670	-	505,188	13,427,858
Financial assets at fair value through profit or loss	2,039	-	-	2,039
Financial assets at fair value through other comprehensive income	1,600,891	-	-	1,600,891
Other assets	6,350	24	-	6,374
Total	24,460,428	1,173,665	523,671	26,157,764
Guarantees and commitments				
Guarantees issued in HRK	64,927	-	-	64,927
Issued guarantees in foreign currency	422,142	-	-	422,142
Open letters of credit in foreign currency	855	-	-	855
Undrawn loans	3,326,415	-	335,547	3,661,962
Other irrevocable contingent liabilities	93	-	-	93
Total	3,814,432	-	335,547	4,149,979
Total credit risk exposure	28,274,860	1,173,665	859,218	30,307,743

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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 September 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 September	30 September	31 December	31 December
	2019	2019	2018	2018
	HRK '000	HRK '000	HRK '000	HRK '000
Financial intermediation and insurance	13,422,986	-	13,037,974	-
Water and electric supply and other infrastructure	1,925,359	1,611,584	1,381,948	1,029,981
Tourism	3,100,288	167,264	3,113,457	77,346
Transport, warehousing and connections	1,807,812	568,566	1,955,578	695,034
Shipbuilding	1,262,014	112,694	2,995,154	382,101
Agriculture and fishery	520,201	155,531	517,983	129,394
Food industry	778,468	144,002	824,235	117,622
Construction industry	1,244,265	87,259	1,011,185	66,009
Other industry	428,830	111,150	460,568	131,022
Public administration	3,128,405	3,128,082	3,788,365	3,788,365
Education	40,410	36,457	43,562	39,163
Manufacture of basic metals and fabricated metal products, except machinery and equipment	196,067	10,972	219,087	19,227
Manufacture of chemicals and chemical products	69,478	32,441	74,185	54,370
Manufacture of other non-metallic mineral products	181,626	62,699	207,541	65,207
Pharmaceutical industry	407,066	955	461,803	911
Other	1,843,921	271,601	1,826,377	312,829
Total credit risk exposure	30,357,196	6,501,257	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 September 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	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 September 2019	30 September 2019	31 December 2018	31 December 2018
	HRK '000	HRK '000	HRK '000	HRK '000
Financial intermediation and insurance	13,415,112	-	13,027,345	-
Water and electric supply and other infrastructure	1,925,359	1,611,584	1,381,948	1,029,981
Tourism	3,100,288	167,264	3,113,457	77,346
Transport, warehousing and connections	1,807,787	568,541	1,955,578	695,034
Shipbuilding	1,262,014	112,694	2,995,154	382,101
Agriculture and fishery	520,194	155,524	517,943	129,354
Food industry	778,376	143,911	824,134	117,521
Construction industry	1,244,139	87,133	1,011,110	65,933
Other industry	428,830	111,150	460,205	130,659
Public administration	3,088,677	3,088,354	3,750,268	3,750,268
Education	40,410	36,457	43,562	39,163
Manufacture of basic metals and fabricated metal products, except machinery and equipment	196,059	10,964	218,982	19,122
Manufacture of chemicals and chemical products	69,456	32,419	74,166	54,351
Manufacture of other non-metallic mineral products	181,626	62,699	207,522	65,189
Pharmaceutical industry	406,110	-	460,893	-
Other	1,843,306	270,985	1,826,088	312,540
Total credit risk exposure	30,307,743	6,459,679	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 September 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 September 2019 amounted to HRK 23,855,939 thousand (31 December 2018: HRK 25,010,421 thousand) and for the Bank HRK 23,848,064 thousand (31 December 2018: HRK 24,999,793 thousand).

Net highest exposure as at 30 September 2019 for the Group amounted to HRK 6,501,257 thousand (31 December 2018: HRK 6,908,581 thousand) and for the Bank HRK 6,459,679 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 September 2019, the credit risk of HRK 4,629,175 thousand for the Group (31 December 2018: HRK 5,325,257 thousand) and HRK 4,589,447 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 2,066,101 thousand (31 December 2018: HRK 1,572,804 thousand), from local (regional) authorities of HRK 694,817 thousand (31 December 2018: HRK 647,039 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 210,178 thousand (31 December 2018: HRK 228,404 thousand), government funds of HRK 41 thousand (31 December 2018: HRK 85 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 1,639,768 thousand for the Group and HRK 1,600,040 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 18,270 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 September 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	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3	Net exposure of portfolio after the effect of mitigation through collateral received POCI	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
	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 - risk POCI	Not subject to IFRS 9	Net exposure of total portfolio	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
30 September 2019												
Assets												
Cash on hand and current accounts with banks	1,634,623	-	-	-	-	1,634,623	-	-	-	-	-	-
Deposits with other banks	110,037	-	-	-	-	110,037	-	-	-	-	-	-
Loans to financial institutions	9,270,624	93,068	16,882	-	-	9,380,574	-	-	-	-	-	-
Loans to other customers	10,042,319	1,177,898	1,851,454	356,187	-	13,427,858	3,862,760	94,772	292,994	25,797	-	4,276,323
Financial assets at fair value through profit or loss	-	-	-	-	2,039	2,039	-	-	-	-	2,039	2,039
Financial assets at fair value through other comprehensive income	1,639,196	-	851	-	-	1,640,047	1,639,196	-	851	-	-	1,640,047
Debt instruments at amortised cost	1,354	-	-	-	-	1,354	1,354	-	-	-	-	1,354
Other assets	8,997	1	1,658	29	-	10,685	3,378	1	1,474	29	-	4,882
Total	22,707,150	1,270,967	1,870,845	356,216	2,039	26,207,217	5,506,688	94,773	295,319	25,826	2,039	5,924,645
Guarantees and commitments												
Guarantees issued in HRK	60,060	-	4,867	-	-	64,927	10,238	-	-	-	-	10,238
Open letters of credit in foreign currency	19,642	21,281	381,219	-	-	422,142	-	-	103,783	-	-	103,783
Issued guarantees in foreign currency	-	-	-	-	855	855	-	-	-	-	-	-
Undrawn loans	3,104,171	505,857	-	51,934	-	3,661,962	359,934	102,564	-	-	-	462,498
Other irrevocable contingent liabilities	93	-	-	-	-	93	93	-	-	-	-	93
Total	3,183,966	527,138	386,086	51,934	855	4,149,979	370,265	102,564	103,783	-	-	576,612
Total credit risk exposure	25,891,116	1,798,105	2,256,931	408,150	2,894	30,357,196	5,876,953	197,337	399,102	25,826	2,039	6,501,257

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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 of risk POCI HRK '000	Not subject to IFRS 9 HRK '000	Net exposure of total portfolio HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000	Not subject to IFRS 9 after the effect of mitigation through collateral received HRK '000	Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000
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

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Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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 September 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	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	HRK '000	HRK '000
Assets												
Cash on hand and current accounts with banks	1,629,991	-	-	-	-	1,629,991	-	-	-	-	-	-
Deposits with other banks	110,037	-	-	-	-	110,037	-	-	-	-	-	-
Loans to financial institutions	9,270,624	93,068	16,882	-	-	9,380,574	-	-	-	-	-	-
Loans to other customers	10,042,319	1,177,898	1,851,454	356,187	-	13,427,858	3,862,760	94,772	292,994	25,797	-	4,276,323
Financial assets at fair value through profit or loss	-	-	-	-	2,039	2,039	-	-	-	-	2,039	2,039
Financial assets at fair value through other comprehensive income	1,600,040	-	851	-	-	1,600,891	1,600,040	-	851	-	-	1,600,891
Other assets	4,686	1	1,658	29	-	6,374	2,311	1	1,473	29	-	3,814
Total	22,657,697	1,270,967	1,870,845	356,216	2,039	26,157,764	5,465,111	94,773	295,318	25,826	2,039	5,883,067
Guarantees and commitments												
Guarantees issued in HRK	60,060	-	4,867	-	-	64,927	10,238	-	-	-	-	10,238
Issued guarantees in foreign currency	19,642	21,281	381,219	-	-	422,142	-	-	103,783	-	-	103,783
Open letters of credit in foreign currency	-	-	-	-	855	855	-	-	-	-	-	-
Undrawn loans	3,104,171	505,857	-	51,934	-	3,661,962	359,934	102,564	-	-	-	462,498
Other irrevocable contingent liabilities	93	-	-	-	-	93	93	-	-	-	-	93
Total	3,183,966	527,138	386,086	51,934	855	4,149,979	370,265	102,564	103,783	-	-	576,612
Total credit risk exposure	25,841,663	1,798,105	2,256,931	408,150	2,894	30,307,743	5,835,376	197,337	399,101	25,826	2,039	6,459,679

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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													
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 Stage 1	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3	Net exposure of portfolio after the effect of mitigation through collateral received POCI	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
		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		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	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	2,045	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	2,045	6,868,562

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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 September 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 2,988,086 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 2,064,821 thousand, local and regional authorities of HRK 694,817 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 210,178 thousand. An additional amount of HRK 18,270 thousand relates to receivables from majority state-owned companies (controlling influence).

As at 30 September 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 1,639,768 thousand for the Group and HRK 1,600,040 thousand for the Bank.

As at 30 September 2019 other assets of HRK 1,228 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 September 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 September 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2019	1,668	-	-	-	1,668
Transfer by risk stages	-	-	-	-	-
Net (release) of loss allowance	(775)	-	-	-	(775)
Net foreign exchange loss on loss allowances	2	-	-	-	2
Balance at 30 September 2019	895	-	-	-	895

Group					
31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2018	41	-	-	-	41
Transfer by risk stages	-	-	-	-	-
Net increase 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

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Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 September 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 September 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2019	1,651	-	-	-	1,651
Transfer by risk stages	-	-	-	-	-
Net (release) of loss allowance	(766)	-	-	-	(766)
Net foreign exchange loss on loss allowances	2	-	-	-	2
Balance at 30 September 2019	887	-	-	-	887

Bank					
31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2018	41	-	-	-	41
Transfer by risk stages	-	-	-	-	-
Net increase 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

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Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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 September 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 of loss allowance	81	-	-	-	81
Net foreign exchange gains on loss allowances	(2)	-	-	-	(2)
Balance at 30 September 2019	1,440	-	-	-	1,440

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 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 September 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 September 2019

	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2019	78,126	20,941	18,087	-	117,154
Transfer by risk stages	-	-	-	-	-
Net (release) of loss allowance	(32,754)	(7,737)	(5,267)	-	(45,758)
Unwind – changes due to the lapse of time	-	-	112	-	112
Loss allowances transferred from/to loans to other customers	(3)	-	-	-	(3)
Net foreign exchange gains on loss allowances	(98)	(21)	(15)	-	(134)
Balance at 30 September 2019	45,271	13,183	12,917	-	71,371

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	76,581	33,937	20,502	-	131,020
Transfer by risk stages	4,272	(4,484)	212	-	-
Net (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 September 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 September 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	44,036	(62,791)	(54,171)	72,926	-
Net increase/(release) of loss allowance	(73,112)	172,879	110,543	(12,652)	197,658
Write-offs	(14,308)	(10)	(11,163)	-	(25,481)
Unwind – changes due to the lapse of time	290	(12)	20,204	4,933	25,415
Loss allowances transferred to/from loans to financial institutions	3	-	-	-	3
Acquisition of immovable property	-	-	(3,910)	-	(3,910)
Collection of interest transferred from the off-balance sheet records	-	-	-	-	-
Sale of receivables	-	-	(51)	-	(51)
Other	-	-	396	-	396
Net foreign exchange gains/(losses) on loss allowances	(677)	(324)	5,195	1,410	5,604
Balance at 30 September 2019	308,110	604,299	2,536,682	130,839	3,579,930

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 September 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 September 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2019	5,007	-	1,739	-	6,746
Transfer by risk stages	-	-	-	-	-
Net increase/(release) of loss allowance	(3,516)	-	51	-	(3,465)
Net foreign exchange gain on loss allowances	(1)	-	(3)	-	(4)
Balance at 30 September 2019	1,490	-	1,787	-	3,277

Group					
31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2018	3,837	451	-	-	4,288
Transfer by risk stages	-	(451)	451	-	-
Net increase 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 September 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 September 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2019	4,720	-	1,739	-	6,459
Transfer by risk stages	-	-	-	-	-
Net increase/(release) of loss allowance	(3,290)	-	51	-	(3,239)
Net foreign exchange gain on loss allowances	(1)	-	(3)	-	(4)
Balance at 30 September 2019	1,429	-	1,787	-	3,216

Bank					
31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2018	3,546	451	-	-	3,997
Transfer by risk stages	-	(451)	451	-	-
Net increase 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

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Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 September 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 September 2019	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2019	281	-	33,837	-	34,118
Transfer by risk stages	1	-	(42)	41	-
Net increase/(release) of loss allowance	(28)	-	1,583	(36)	1,519
Other adjustments	22	-	-	-	22
Write-offs	(4)	-	(4)	-	(8)
Net foreign exchange gain on loss allowances	-	-	(7)	-	(7)
Balance at 30 September 2019	272	-	35,367	5	35,644

Group 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	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 September 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 September 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2019	46	-	33,837	-	33,883
Transfer by risk stages	1	-	(42)	41	-
Net increase/(release) of loss allowance	(16)	-	1,583	(36)	1,531
Write-offs	-	-	(4)	-	(4)
Net foreign exchange gains on loss allowances	-	-	(7)	-	(7)
Balance at 30 September 2019	31	-	35,367	5	35,403

Bank					
31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2018	4	4	13,079	-	13,087
Transfer by risk stages	20	(1)	(19)	-	-
Net 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 September 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 September 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	(1,997)	1,997	(2,904)	2,904	-
Net increase/(release) of loss allowance	1,657	(17,473)	(152,377)	(10,514)	(178,707)
Net foreign exchange gains/(losses) on loss allowances	(78)	(98)	583	(4)	403
Balance at 30 September 2019	8,752	49,520	21,298	3,409	82,979

**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/(release) 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 September 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 September 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 September 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	1,634,625	-	-	-	-	1,634,625
Deposits with other banks	72	109,595	-	-	370	110,037
Loans to financial institutions*	186,777	372,024	1,168,033	2,653,981	4,999,759	9,380,574
Loans to other customers	2,189,892	210,507	1,917,021	2,094,072	7,016,366	13,427,858
Financial assets at fair value through profit or loss	284,727	-	-	-	2,039	286,766
Financial assets at fair value through other comprehensive income	1,656,253	9,704	193	-	-	1,666,150
Debt instruments at amortised cost	-	16	2	-	1,336	1,354
Property, plant and equipment and intangible assets	-	-	-	-	47,664	47,664
Foreclosed assets	2,277	5,955	602	15,777	2,740	27,351
Other assets	8,094	8,091	7,340	4,686	1,572	29,783
Total assets	5,962,717	715,892	3,093,191	4,768,516	12,071,846	26,612,162
Liabilities						
Deposits from customers	174,891	7,251	31,961	16,036	28,729	258,868
Borrowings	260,939	451,704**	1,584,004	4,163,298	8,024,761	14,484,706
Debt securities issued	-	26,393	1,107,854	-	-	1,134,247
Provisions for guarantees, commitments and other liabilities	63,781	4,210	13,604	28,018	29,814	139,427
Other liabilities	153,874	12,735	37,162	74,712	69,111	347,594
Total liabilities	653,485	502,293	2,774,585	4,282,064	8,152,415	16,364,842
Liquidity gap	5,309,232	213,599	318,606	486,452	3,919,431	10,247,320
Guarantees and commitments						
Guarantees issued in HRK	65,583	-	-	-	-	65,583
Issued guarantees in foreign currency	443,805	-	-	-	-	443,805
Open letters of credit in foreign currency	855	-	-	-	-	855
Undrawn loans	3,722,623	-	-	-	-	3,722,623
EIF – subscribed, not called up capital	47,374	-	-	-	-	47,374
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	4,280,333	-	-	-	-	4,280,333

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

* Receivables of HRK 25,170 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 September 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.

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Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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 September 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 September 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	1,629,993	-	-	-	-	1,629,993
Deposits with other banks	72	109,595	-	-	370	110,037
Loans to financial institutions*	186,777	372,024	1,168,033	2,653,981	4,999,759	9,380,574
Loans to other customers	2,189,892	210,507	1,917,021	2,094,072	7,016,366	13,427,858
Financial assets at fair value through profit or loss	276,606	-	-	-	2,039	278,645
Financial assets at fair value through	1,617,418	9,576	-	-	-	1,626,994
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	47,504	47,504
Foreclosed assets	2,277	5,955	602	15,777	2,740	27,351
Other assets	6,881	4,855	7,272	4,686	1,526	25,220
Total assets	5,909,916	712,512	3,092,928	4,768,516	12,106,428	26,590,300
Liabilities						
Deposits from customers	174,891	7,251	31,961	16,036	28,729	258,868
Borrowings	260,939	451,704**	1,584,004	4,163,298	8,024,761	14,484,706
Debt securities issued	-	26,393	1,107,854	-	-	1,134,247
Provisions for guarantees, commitments and other liabilities	63,781	4,210	13,495	28,018	29,814	139,318
Other liabilities	153,301	10,118	32,437	67,344	71,661	334,861
Total liabilities	652,912	499,676	2,769,751	4,274,696	8,154,965	16,352,000
Liquidity gap	5,257,004	212,836	323,177	493,820	3,951,463	10,238,300
Guarantees and commitments						
Guarantees issued in HRK	65,583	-	-	-	-	65,583
Issued guarantees in foreign currency	443,805	-	-	-	-	443,805
Open letters of credit in foreign currency	855	-	-	-	-	855
Undrawn loans	3,722,623	-	-	-	-	3,722,623
EIF – subscribed, not called up capital	47,374	-	-	-	-	47,374
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	4,280,333	-	-	-	-	4,280,333

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

* Receivables of HRK 25,170 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 September 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.4. Liquidity risk (continued)

Bank 31 December 2018	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	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.

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Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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 September 2019	Up to 1 month HRK '000	1 - 3 months HRK '000	3 - 12 months HRK '000	1 - 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
Financial liabilities						
Deposits from customers	174,891	7,251	31,961	16,036	28,729	258,868
Borrowings	281,255	492,736	1,733,091	4,556,865	9,160,491	16,224,438
Debt securities issued	-	26,393	1,174,474	-	-	1,200,867
Provisions for guarantees, commitments and other liabilities	63,781	4,210	13,604	28,018	29,814	139,427
Other liabilities	153,874	12,735	37,162	74,712	69,111	347,594
Total	673,801	543,325	2,990,292	4,675,631	9,288,145	18,171,194
Guarantees and commitments						
Guarantees issued in HRK	65,583	-	-	-	-	65,583
Issued guarantees in foreign currency	443,805	-	-	-	-	443,805
Open letters of credit in foreign currency	855	-	-	-	-	855
Undrawn loans	3,722,623	-	-	-	-	3,722,623
EIF – subscribed, not called up capital	47,374	-	-	-	-	47,374
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	4,280,333	-	-	-	-	4,280,333
Group 31 December 2018						
	Up to 1 month HRK '000	1 - 3 months HRK '000	3 - 12 months HRK '000	1 - 3 years HRK '000	Over 3 years HRK '000	Total 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

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Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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 30 September 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	174,891	7,251	31,961	16,036	28,729	258,868
Borrowings	281,255	492,736	1,733,091	4,556,865	9,160,491	16,224,438
Debt securities issued	-	26,393	1,174,474	-	-	1,200,867
Provisions for guarantees, commitments and other liabilities	63,781	4,210	13,495	28,018	29,814	139,318
Other liabilities	153,301	10,118	32,437	67,344	71,661	334,861
Total	673,228	540,708	2,985,458	4,668,263	9,290,695	18,158,352

Guarantees and commitments

Guarantees issued in HRK	65,583	-	-	-	-	65,583
Issued guarantees in foreign currency	443,805	-	-	-	-	443,805
Open letters of credit in foreign currency	855	-	-	-	-	855
Undrawn loans	3,722,623	-	-	-	-	3,722,623
EIF – subscribed, not called up capital	47,374	-	-	-	-	47,374
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	4,280,333	-	-	-	-	4,280,333

Bank 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	125,417	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 September 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 September 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 September 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
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
30 September 2019								
Assets								
Cash on hand and current accounts with banks	1,196,414	-	-	-	-	438,211	1,634,625	1,196,414
Deposits with other banks	-	109,595	-	-	-	442	110,037	109,595
Loans to financial institutions	181,354	582,024	1,133,250	2,575,548	4,902,545	5,853	9,380,574	9,140,738
Loans to other customers	2,324,233	382,824	2,009,882	1,877,719	6,726,088	107,112	13,427,858	12,574,293
Financial assets at fair value through profit or loss	-	-	-	-	2,039	284,727	286,766	2,039
Financial assets at fair value through other comprehensive income	1,630,149	-	-	-	-	36,001	1,666,150	1,630,149
Debt instruments at amortised cost	-	-	-	-	1,336	18	1,354	1,336
Other assets	-	-	-	-	-	29,783	29,783	-
Total assets	5,332,150	1,074,443	3,143,132	4,453,267	11,632,008	902,147	26,537,147	24,654,564
Liabilities								
Deposits from customers	-	-	-	-	-	258,868	258,868	-
Borrowings	260,939	543,200	1,570,285	4,126,713	7,928,726	54,843	14,484,706	14,278,952
Debt securities issued	-	-	1,107,854	-	-	26,393	1,134,247	1,107,854
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	139,427	139,427	-
Other liabilities	-	-	-	-	-	347,594	347,594	-
Total liabilities	260,939	543,200	2,678,139	4,126,713	7,928,726	827,125	16,364,842	15,386,806
Interest rate gap	5,071,211	531,243	464,993	326,554	3,703,282	75,022	10,172,305	9,267,758

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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 September 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 September 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 September 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 September 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	1,191,782	-	-	-	-	438,211	1,629,993	1,191,782
Deposits with other banks	-	109,595	-	-	-	442	110,037	109,595
Loans to financial institutions	181,354	582,024	1,133,250	2,575,548	4,902,545	5,853	9,380,574	9,140,738
Loans to other customers	2,324,233	382,824	2,009,882	1,877,719	6,726,088	107,112	13,427,858	12,574,293
Financial assets at fair value through profit or loss	-	-	-	-	2,039	276,606	278,645	2,039
Financial assets at fair value through other comprehensive income	1,591,315	-	-	-	-	35,679	1,626,994	1,591,315
Other assets	-	-	-	-	-	25,220	25,220	-
Total assets	5,288,684	1,074,443	3,143,132	4,453,267	11,630,672	889,123	26,479,321	24,609,762
Liabilities								
Deposits from customers	-	-	-	-	-	258,868	258,868	-
Borrowings	260,939	543,200	1,570,285	4,126,713	7,928,726	54,843	14,484,706	14,278,952
Debt securities issued	-	-	1,107,854	-	-	26,393	1,134,247	1,107,854
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	139,318	139,318	-
Other liabilities	-	-	-	-	-	334,861	334,861	-
Total liabilities	260,939	543,200	2,678,139	4,126,713	7,928,726	814,283	16,352,000	15,386,806
Interest rate gap	5,027,745	531,243	464,993	326,554	3,701,946	74,840	10,127,321	9,222,956

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
31 December 2018								
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 September 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):

	30 September 2019 HRK '000	Group 31 December 2018 HRK '000	30 September 2019 HRK '000	Bank 31 December 2018 HRK '000
Assets				
Fixed interest rate assets	24,654,564	24,703,191	24,609,762	24,661,563
Variable interest rate assets	980,436	1,025,467	980,436	1,025,467
Non-interest bearing	902,147	1,414,161	889,123	1,399,679
Total assets	26,537,147	27,142,819	26,479,321	27,086,709
Liabilities				
Fixed interest rate liabilities	15,386,806	15,772,982	15,386,806	15,772,982
Variable interest rate liabilities	150,911	305,552	150,911	305,552
Non-interest bearing	827,125	1,079,340	814,283	1,066,381
Total liabilities	16,364,842	17,157,874	16,352,000	17,144,915

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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. Sep 30, 2019	Effect on profit Sep 30, 2019	Increase in b.p. Dec 31, 2018	Effect on profit Dec 31, 2018
		HRK '000		HRK '000
EUR	+6	297	+1	40
USD	+18	552	+17	599
		HRK '000		HRK '000
Reference interest rates indexed to:	Decrease in b.p. Sep 30, 2019	Effect on profit Sep 30, 2019	Decrease in b.p. Dec 31, 2018	Effect on profit Dec 31, 2018
		HRK '000		HRK '000
EUR	-6	(297)	-1	(40)
USD	-18	(552)	-17	(599)

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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 September 2019 and 31 December 2018 in HRK and foreign currencies can be shown as follows:

Group	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
30 September 2019						
Assets						
Cash on hand and current accounts with banks	18,494	1,173,742	6	1,192,242	442,383	1,634,625
Deposits with other banks	-	110,037	-	110,037	-	110,037
Loans to financial institutions	-	4,632,927	-	4,632,927	4,747,647	9,380,574
Loans to other customers	552,925	8,261,194	-	8,814,119	4,613,739	13,427,858
Financial assets at fair value through profit or loss	-	59,384	-	59,384	227,382	286,766
Financial assets at fair value through other comprehensive income	-	405,253	-	405,253	1,260,897	1,666,150
Debt instruments at amortised cost	-	1,354	-	1,354	-	1,354
Property, plant and equipment and intangible assets	-	-	-	-	47,664	47,664
Foreclosed assets	-	-	-	-	27,351	27,351
Other assets	-	2,870	-	2,870	26,913	29,783
Total assets	571,419	14,646,761	6	15,218,186	11,393,976*	26,612,162
Liabilities						
Deposits from customers	21,470	17,098	81	38,649	220,219	258,868
Borrowings	551,374	13,933,332	-	14,484,706	-	14,484,706
Debt securities issued	-	1,134,247	-	1,134,247	-	1,134,247
Provisions for guarantees, commitments and other liabilities	10,134	9,150	2,378	21,662	117,765	139,427
Other liabilities	3,442	9,904	34	13,380	334,214	347,594
Total liabilities	586,420	15,103,731	2,493	15,692,644	672,198	16,364,842
Currency gap	(15,001)	(456,970)	(2,487)	(474,458)	10,721,778	10,247,320

*Amounts linked to a one-way currency clause represent HRK 58,545 thousand.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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
	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	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 September 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 September 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
30 September 2019	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets						
Cash on hand and current accounts with banks	18,494	1,173,742	6	1,192,242	437,751	1,629,993
Deposits with other banks	-	110,037	-	110,037	-	110,037
Loans to financial institutions	-	4,632,927	-	4,632,927	4,747,647	9,380,574
Loans to other customers	552,925	8,261,194	-	8,814,119	4,613,739	13,427,858
Financial assets at fair value through profit or loss	-	51,262	-	51,262	227,383	278,645
Financial assets at fair value through other comprehensive income	-	398,650	-	398,650	1,228,344	1,626,994
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	47,504	47,504
Foreclosed assets	-	-	-	-	27,351	27,351
Other assets	-	110	-	110	25,110	25,220
Total assets	571,419	14,627,922	6	15,199,347	11,390,953*	26,590,300
Liabilities						
Deposits from customers	21,470	17,098	81	38,649	220,219	258,868
Borrowings	551,374	13,933,332	-	14,484,706	-	14,484,706
Debt securities issued	-	1,134,247	-	1,134,247	-	1,134,247
Provisions for guarantees, commitments and other liabilities	10,134	9,150	2,378	21,662	117,656	139,318
Other liabilities	3,244	3,620	-	6,864	327,997	334,861
Total liabilities	586,222	15,097,447	2,459	15,686,128	665,872	16,352,000
Currency gap	(14,803)	(469,525)	(2,453)	(486,781)	10,725,081	10,238,300

*Amounts linked to a one-way currency clause represent HRK 58,545 thousand.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 September 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 September 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 September 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 1.57% for EUR/HRK, while the USD/HRK volatility rate was 5.67% 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 Sep 30, 2019 %	Effect on profit Sep 30, 2019 HRK' 000	Change in currency rate Dec 31, 2018 %	Effect on profit Dec 31, 2018 HRK' 000
EUR	+1.57	(4,109)	+1.97	(14,207)
EUR	-1.57	4,390	-1.97	15,217
USD	+5.67	(70)	+7.28	(1,402)
USD	-5.67	70	-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 September 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 September 2019 and 31 December 2018.

Group	30 September 2019		
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
Financial assets at fair value through profit or loss:			
Loans at FVPL:			
Mezzanine loans	-	-	2,039
Investments in investment funds:			
Investments in investment funds at fair value through profit or loss	284,535	-	-
Equity instruments:			
Listed equity instruments:			
Investments in corporate shares	-	-	-
Unlisted equity instruments:			
Investments in corporate shares	-	-	31
Investment in financial institutions shares	-	161	-
Total financial assets at fair value through profit or loss	284,535	161	2,070
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	1,228,945	-	-
Corporate bonds	770	-	-
Treasury bills of the Ministry of Finance	399,866	-	-
Accrued interest	9,615	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	568
Accrued interest	-	-	283
Total debt instruments	1,639,196	-	851
Unlisted equity instruments:			
Investment in shares of foreign legal entities -SWIFT	-	40	-
Shares of foreign financial institutions – EIF	-	26,063	-
Total equity instruments	-	26,103	-
Total financial assets at fair value through other comprehensive income	1,639,196	26,103	851

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 September 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 September 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 September 2019		
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
Financial assets at fair value through profit or loss:			
Loans at FVPL:			
Mezzanine loans	-	-	2,039
Investments in investment funds:			
Investments in investment funds at fair value through profit or loss	276,414	-	-
Equity instruments:			
Listed equity instruments:			
Investments in companies' shares	-	-	-
Unlisted equity instruments:			
Investments in companies' shares	-	-	31
Investment in financial institutions shares	-	161	-
Total financial assets at fair value through profit or loss	276,414	161	2,070
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	1,190,881	-	-
Treasury bills of the Ministry of Finance	399,866	-	-
Accrued interest	9,293	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	568
Accrued interest	-	-	283
Total debt instruments	1,600,040	-	851
Unlisted equity instruments:			
Investment in shares of foreign legal entities – SWIFT	-	40	-
Shares of foreign financial institutions – EIF	-	26,063	-
Total equity instruments	-	26,103	-
Total financial assets at fair value through other comprehensive income	1,600,040	26,103	851

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 September 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:			
Loans at FVPL:			
Mezzanine loans	-	-	2,045
Investments in investment funds:			
Investments in investment funds at fair value through profit or loss	328,597	-	-
Equity instruments:			
Listed equity instruments:			
Investments in companies' shares	-	-	-
Unlisted equity instruments:			
Investments in companies' shares	-	-	-
Investment in financial institutions shares	-	161	-
Total financial assets at fair value through profit or loss	328,597	161	2,045
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	1,088,457	-	-
Treasury bills of the Ministry of Finance	1,666,299	-	-
Accrued interest	10,839	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	535
Accrued interest	-	-	233
Total debt instruments	2,765,595	-	768
Unlisted equity instruments:			
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 September 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 September 2019, the market price of ordinary shares of the debtor that the Bank could subscribe amounted to HRK 5,957 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 2,039 thousand, which represents the fair value of the mezzanine loan on 30 September 2019.

b) Corporate bonds that are allocated to Level 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 September 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 Level 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 30 September 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 30 September 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 9.53%, the bond price would be 38.88%, which would result in an increase in HBOR's generated profits of HRK 16 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 13.53%, the bond price would be 36.76%, 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 30 September 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 57 thousand.

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

	Sep 30, 2019 HRK '000	Group Sep 30, 2018 HRK '000	Sep 30, 2019 HRK '000	Bank Sep 30, 2018 HRK '000
Balance as at 1 January	2,045	4,016	2,045	4,016
Changes in financial assets at fair value	(6)	(1,550)	(6)	(1,550)
Balance as of 30 September	2,039	2,466	2,039	2,466

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

	Sep 30, 2019 HRK '000	Group Sep 30, 2018 HRK '000	Sep 30, 2019 HRK '000	Bank Sep 30, 2018 HRK '000
Balance as at 1 January	768	689	768	689
Increase in fair value through other comprehensive income	36	28	36	28
Net foreign exchange	(3)	(18)	(3)	(18)
Accrued interest	50	49	50	49
Balance as of 30 September	851	748	851	748

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

(All amounts are expressed in HRK thousand)

27. Reporting by segments (continued)

30 September 2019	Banking activities HRK '000	Insurance activities HRK '000	Other activities HRK '000	Unallocated HRK '000	Total HRK '000
Net interest income	245,641	990	-	-	246,631
Net fee income	14,920	811	1,279	-	17,010
Net income/(expenses) from financial operations	10,353	2,373	32	-	12,758
Net premiums earned	-	4,351	-	-	4,351
Other income	5,445	55	212	(219)	5,493
Income from operating activities	276,359	8,580	1,523	(219)	286,243
Operating costs	(116,493)	(4,332)	(1,042)	219	(121,648)
Impairment loss and provisions	(18,122)	287	(19)	-	(17,854)
Expenses for insured cases	-	(3,124)	-	-	(3,124)
Net change in provisions	-	907	-	-	907
Other expenses	-	(140)	-	-	(140)
Operating expenses	(134,615)	(6,402)	(1,061)	219	(141,859)
Profit before income tax	141,744	2,178	462	-	144,384
Income tax	-	(506)	-	-	(506)
Profit for the year	141,744	1,672	462	-	143,878
Assets of segment	26,590,300	56,141	1,847	(36,126)	26,612,162
Total assets	26,590,300	56,141	1,847	(36,126)	26,612,162
Liabilities of segment	16,352,000	12,767	107	(32)	16,364,842
Total equity	10,238,300	6,406	1,440	1,174	10,247,320
Total liabilities and total equity	26,590,300	19,173	1,547	1,142	26,612,162

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 September 2019 (continued)

(All amounts are expressed in HRK thousand)

27. Reporting by segments (continued)

30 September 2018	Banking activities	Insurance activities	Other activities	Unallocated	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Net interest income	307,096	1,056	-	-	308,152
Net fee income	31,355	735	872	-	32,962
Net income/(expenses) from financial operations	7,204	(248)	1	-	6,957
Net premiums earned	-	4,949	-	-	4,949
Other income	5,958	64	219	(216)	6,025
Income from operating activities	351,613	6,556	1,092	(216)	359,045
Operating costs	(119,470)	(4,100)	(891)	216	(124,245)
Impairment loss and provisions	(134,431)	(91)	41	-	(134,481)
Expenses for insured cases	-	(553)	-	-	(553)
Net change in provisions	-	(833)	-	-	(833)
Other expenses	-	(250)	-	-	(250)
Operating expenses	(253,901)	(5,827)	(850)	216	(260,362)
Profit before income tax	97,712	729	242	-	98,683
Income tax	-	-	-	-	-
Profit for the period	97,712	729	242	-	98,683
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 September 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 September 2019 and 31 December 2018.

	Group		Bank	
	30 September 2019	31 December 2018	30 September 2019	31 December 2018
	HRK '000	HRK '000	HRK '000	HRK '000
Total regulatory capital	9,979,525	9,816,139	9,977,411	9,815,749
Credit risk weighted exposure amount	15,175,771	15,519,739	15,162,180	15,504,641
Initial credit requirements for operating risk	897,361	897,363	877,875	877,863
Initial capital requirements for currency risk	258,867	725,300	242,852	706,112
Total capital requirements	16,331,999	17,142,402	16,282,907	17,088,616
	%	%	%	%
Capital adequacy ratio	61.10	57.26	61.28	57.44
	HRK '000	HRK '000	HRK '000	HRK '000
Own funds needed for ensuring capital adequacy according to regulatory requirements	1,959,840	2,057,088	1,953,949	2,050,634

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

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

(All amounts are expressed in HRK thousand)

	Sep 30, 2019 HRK '000	Sep 30, 2018 HRK '000
Premium earned		
Gross premium written	8,172	7,671
Premium impairment allowance originated and reserved on collection	(22)	(32)
Gross outward reinsurance premium	(3,549)	(3,156)
Net premium written	4,601	4,483
Changes in the gross unearned premium reserve	(192)	156
Changes in the gross unearned premium reserve, reinsurer's share	(58)	278
Net premium earned	4,351	4,917
Fee and commission income	2,090	1,607
Net investment income	3,409	925
Other operating income	48	67
Net income	9,898	7,516
Gross expense for returned premiums	(284)	(463)
Reinsurer's share	144	213
Gross reserve for returned premiums	(246)	(81)
Reinsurer's share	112	36
Net expense and reserve for returned premiums	(274)	(295)
Claims incurred	(5,759)	(592)
Claims incurred, reinsurer's share	2,635	39
Change in the claims provision	2,259	(1,480)
Change in the claims provision, reinsurer's share	(1,218)	692
Net claims incurred	(2,083)	(1,341)
Marketing and provision expenses	(628)	(668)
Administrative expenses	(4,384)	(4,069)
Other operating expenses	125	(80)
Net exchange differences other than those on financial instruments	(14)	(83)
Profit before income tax	2,640	980
Income tax	(506)	-
Profit for the period	2,134	980
Other comprehensive income		
Items that are not transferred subsequently to profit or loss:		
Deferred tax – adjustment for previous period	-	(16)
Total items that are not transferred subsequently to profit or loss	-	(16)
Items that may be reclassified subsequently to profit or loss:		
Gains on revaluation of financial assets available for sale	254	912
Decrease in the fair value of financial assets available for sale	(464)	(698)
Transfer of realized gains on asset available for sale to profit or loss	-	-
Deferred tax	-	(37)
Total items that may be reclassified subsequently to profit or loss:	(210)	177
Other comprehensive income after income tax	(210)	161
Total comprehensive income after income tax	1,924	1,141
Attributable to:		
Equity holder of the parent	1,924	1,141

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)

	Sep 30, 2019 HRK '000	Dec 31, 2018 HRK '000
Assets		
Non-current assets		
Property and equipment	28	50
Intangible assets	133	18
Held to maturity investments	1,354	1,366
Deferred tax	46	-
Total non-current assets	1,561	1,434
Current assets		
Investments available for sale	39,156	42,569
Investments at fair value through profit or loss	8,122	291
Deposits with banks	-	-
Receivables from insurance operations	4,091	8,123
Other receivables	427	446
Cash and cash equivalents	4,631	3,363
Total current assets	56,427	54,792
Total assets	57,988	56,226
Equity and liabilities		
Equity		
Share capital	37,500	37,500
Retained earnings and reserves	2,501	2,237
Other reserves	3,011	3,049
Profit for the year	2,134	481
Total equity	45,146	43,267
Technical provisions		
Gross technical provisions	15,148	16,969
Technical provisions, reinsurer's share	(7,556)	(8,721)
	7,592	8,248
Current liabilities		
Liabilities from insurance operations	2,647	2,549
Other liabilities	2,603	2,162
Total liabilities	5,250	4,711
Total equity and liabilities	57,988	56,226

Appendix - Financial Performance of the HKO Group
Statement of Cash Flows
for the period 1 January – 30 September (unaudited)

(All amounts are expressed in HRK thousand)

	Sep 30, 2019 HRK '000	Sep 30, 2018 HRK '000
Operating activities		
Profit before income tax	2,640	980
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>		
Depreciation	25	35
Impairment loss and provisions	(245)	74
Income tax	(506)	-
Accrued interest	147	257
	2	
<i>Operating profit before working capital changes</i>	<i>2,063</i>	<i>1,346</i>
Changes in operating assets and liabilities:		
Net decrease in deposits with other banks	-	-
Net realized (gain)/loss on assets available for sale	(15)	-
Decrease of discount in assets available for sale and assets held to maturity	153	172
Net gain on financial assets at fair value through profit or loss	(2,415)	(4)
Premium receivables	4,009	5,327
Net decrease/(increase) in other assets	6	(46)
Net decrease of assets and liabilities from insurance operations	98	1,123
Net increase in technical provisions	(656)	398
Net increase in other liabilities	403	(398)
Net cash used in operating activities	3,646	7,918
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	(242)	-
Net purchase of assets available for sale	(2,544)	(1,500)
Net sale of assets available for sale	503	5,000
Purchase of assets held to maturity	-	-
Collection of assets held to maturity when due	-	-
Net purchase of property, plant and equipment and intangible assets	(122)	(70)
Net cash provided investment activities	(2,405)	(3,430)
Effect of foreign currency to cash and cash equivalents		
Net foreign exchange	36	135
Net effect	36	135
Net increase in cash and cash equivalents	1,277	11,483
Balance as of 1 January	3,363	2,534
Net increase in cash	1,277	11,483
Balance as of 30 September	4,640	14,017

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

	Share capital 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	-	-	-	980	980	980
Other comprehensive income	-	-	177	-	177	177
Total comprehensive income	-	-	177	980	1,157	1,157
Transfer of profit 2017 to retained earnings	-	1,070	-	(1,070)	-	-
Balance as of 30 September 2018	37,500	2,237	3,176	980	43,893	43,893
Balance as of 1 January 2019	37,500	2,237	3,049	481	43,267	43,267
Profit for the period	-	-	-	2,134	2,134	2,134
Other comprehensive income	-	-	(210)	-	(210)	(210)
Total comprehensive income	-	-	(210)	2,134	1,924	1,924
Transfer of profit 2018 to retained earnings	-	481	-	(481)	-	-
Other adjustments	-	(217)	172	-	(45)	(45)
Balance as of 30 September 2019	37,500	2,501	3,011	2,134	45,146	45,146

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