

CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Unaudited Condensed Separate and Consolidated Interim Financial Statements for the Period 1 January – 31 March 2020

Zagreb, May 2020

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 – 31 March 2020

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 122 have been prepared in accordance with International Accounting Standard 34: “Interim Financial Reporting” applicable for the preparation of interim financial statements, and give a true and fair view of assets, liabilities, financial position, financial performance and cash flows for the reporting period.

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


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

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

The Condensed separate and consolidated interim financial statements on pages 4 to 122 have been approved by the Management Board on 22 May 2020 as confirmed by the signatures below.

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


Vedran Jakšić, MSc
Senior Executive Director


Marin Pranjić
Accounting Division Executive Director


Tamara Perko, MSc
President of the Management Board




Hrvoje Čuvalo, MSc
Member of the Management Board

Zagreb, 22 May 2020

Condensed Consolidated Interim Financial Statements of the Group
Income Statement
for the period 1 January – 31 March

(All amounts are expressed in HRK thousand)

	Notes	2020 HRK '000	2019 HRK '000
Interest income calculated using the effective interest method	5	160,522	163,300
Interest expense	6	(72,759)	(81,762)
Net interest income		87,763	81,538
Fee and commission income		5,999	7,784
Fee and commission expense		(291)	(371)
Net fee and commission income		5,708	7,413
Net gains/(losses) on financial operations		(19,076)	3,548
Other income		3,818	2,753
		78,213	95,252
Employee expenses	7 a)	(23,443)	(23,381)
Depreciation and amortization	7 b)	(2,203)	(1,867)
Other expenses	7 c)	(12,469)	(12,345)
Impairment loss and provisions	8	(17,639)	(36,015)
Profit before income tax		22,459	21,644
Income tax		(228)	(33)
Profit for the period		22,231	21,611
Attributable to:			
Owner of the Bank		22,231	21,611

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 - 31 March

(All amounts are expressed in HRK thousand)

	2020	2019
	HRK '000	HRK '000
Profit for the period	22,231	21,611
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	(20,637)	10,941
Net foreign exchange on equity instruments	587	26
Deferred tax – other comprehensive income	170	(116)
Total items that may be reclassified subsequently to profit or loss	(19,880)	10,851
Other comprehensive income after income tax	(19,880)	10,851
Total comprehensive income after income tax	2,351	32,462
Attributable to:		
Owner of the Bank	2,351	32,462

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	Mar 31, 2020 HRK '000	Dec 31, 2019 HRK '000
Assets			
Cash on hand and current accounts with banks	9	1,336,897	884,407
Deposits with other banks	10	159,256	553,470
Loans to financial institutions	11	9,421,487	9,447,706
Loans to other customers	12	14,076,648	13,699,634
Financial assets at fair value through profit or loss	13	184,198	203,833
Financial assets at fair value through other comprehensive income	14	1,379,323	1,578,810
Debt instruments at amortized cost	15	-	457
Investments in associates		-	-
Property, plant and equipment and intangible assets		47,867	48,281
Foreclosed assets	16	24,408	24,198
Other assets	17	31,937	29,815
Total assets		26,662,021	26,470,611
Liabilities			
Deposits from customers		179,902	176,769
Borrowings	18	14,586,270	14,400,453
Debt securities issued	19	1,202,392	1,158,291
Provisions for guarantees, commitments and other	20	98,000	120,780
Other liabilities	21	318,252	339,737
Total liabilities		16,384,816	16,196,030
Equity			
Founder's capital		7,109,632	7,109,632
Retained earnings and reserves		3,076,153	2,921,855
Other reserves		56,730	76,610
Profit for the year		22,231	154,298
Guarantee fund		12,459	12,186
Total equity		10,277,205	10,274,581
Total liabilities and total equity		26,662,021	26,470,611

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 - 31 March

(All amounts are expressed in HRK thousand)

	Notes	2020 HRK '000	2019 HRK '000
Operating activities			
Profit before income tax		22,459	21,644
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation and amortization		2,203	1,867
Income tax		(228)	33
Impairment loss and provisions		17,639	36,015
Accrued interest		(1,734)	6,739
Deferred fees		(1,731)	756
Other changes in assets at fair value		(344)	(688)
<i>Operating profit before working capital changes</i>		<i>38,264</i>	<i>66,366</i>
<i>Changes in operating assets and liabilities:</i>			
Net decrease in deposits with other banks, before impairment		394,695	15,445
Net decrease in loans to financial institutions, before impairment		29,222	(31,788)
Net increase in loans to other customers, before loss impairment		(383,576)	(839,846)
Decrease of discount in debt securities issued		1,175	916
Net increase in foreclosed assets		(210)	(553)
Net increase in other assets, before impairment		(2,921)	(5,876)
Net increase/decrease in deposits from banks and companies		3,133	(101,981)
Net decrease in other liabilities, before provisions		(21,667)	(15,807)
Net cash used in operating activities		58,115	(913,124)
Investment activities			
Purchase of financial assets at fair value through profit or loss		(481)	(87)
Sale of financial assets at fair value through profit or loss		16,747	-
Purchase of financial assets at fair value through other comprehensive income		(153,021)	(372,696)
Sale of financial assets at fair value through other comprehensive income		333,346	1,266,397
Sale of debt instruments at amortized cost		448	2
Purchase of property, plant and equipment and intangible assets		(1,266)	(560)
Net cash provided from investment activities		195,773	893,056
Financing activities			
Increase in borrowings – withdrawn funds		485,986	449,129
Decrease in borrowings – repayments of principal		(629,359)	(848,619)
Other		88	2
Net cash used in financing activities		(143,285)	(399,488)
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		342,263	29,881
Net effect		342,263	29,881
Net increase/decrease in cash and cash equivalents		452,866	(389,675)
Cash and cash equivalents balance as of 1 January, before impairment		884,890	946,085
Net increase/decrease in cash and cash equivalents		452,866	(389,675)
Cash and cash equivalents balance as of 31 March before impairment	9	1,337,756	556,410
Additional note - Operational cash flows			
Interest paid		49,730	49,864
Interest received		106,422	121,811

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 - 31 March

(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 2019	7,059,632	2,717,118	67,474	204,737	12,146	10,061,107
Profit for the period	-	-	-	21,611	-	21,611
Other comprehensive income	-	-	10,851	-	-	10,851
Total comprehensive income	-	-	10,851	21,611	-	32,462
Net foreign exchange – Guarantee fund	-	-	-	-	12	12
Transfer of profit 2018 to retained earnings	-	204,737	-	(204,737)	-	-
Other adjustment	-	(201)	333	-	-	132
Balance as at 31 March 2019	7,059,632	2,921,654	78,658	21,611	12,158	10,093,713
Balance as at 1 January 2020	7,109,632	2,921,855	76,610	154,298	12,186	10,274,581
Profit for the period	-	-	-	22,231	-	22,231
Other comprehensive income	-	-	(19,880)	-	-	(19,880)
Total comprehensive income	-	-	(19,880)	22,231	-	2,351
Net foreign exchange – Guarantee fund	-	-	-	-	273	273
Transfer of profit 2019 to retained earnings	-	154,298	-	(154,298)	-	-
Balance as at 31 March 2020	7,109,632	3,076,153	56,730	22,231	12,459	10,277,205

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 - 31 March

(All amounts are expressed in HRK thousand)

	Notes	2020 HRK '000	2019 HRK '000
Interest income calculated using the effective interest method	5	160,223	162,971
Interest expense	6	(72,749)	(81,760)
Net interest income		87,474	81,211
Fee and commission income		5,307	7,087
Fee and commission expense		(291)	(371)
Net fee and commission income		5,016	6,716
Net gains/(losses) on financial operations		(19,153)	3,415
Other income		2,178	1,260
		75,515	92,602
Employee expenses	7 a)	(22,456)	(22,492)
Depreciation and amortization	7 b)	(2,113)	(1,859)
Other expenses	7 c)	(11,543)	(10,936)
Impairment loss and provisions	8	(17,650)	(36,052)
Profit before income tax		21,853	21,263
Income tax			-
Profit for the period		21,753	21,263
Attributable to:			
Owner of the Bank		21,753	21,263

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 - 31 March

(All amounts are expressed in HRK thousand)

	2020 HRK '000	2019 HRK '000
Profit for the year	21,753	21,263
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	(19,694)	10,294
Net foreign exchange on equity instruments	587	26
Total items that may be reclassified subsequently to profit or loss	(19,107)	10,320
Other comprehensive income after income tax	(19,107)	10,320
Total comprehensive income after income tax	2,646	31,583
Attributable to:		
Owner of the Bank	2,646	31,583

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	Mar 31, 2020 HRK '000	Dec 31, 2019 HRK '000
Assets			
Cash on hand and current accounts with banks	9	1,324,044	881,487
Deposits with other banks	10	159,256	553,470
Loans to financial institutions	11	9,421,487	9,447,706
Loans to other customers	12	14,076,648	13,699,634
Financial assets at fair value through profit or loss	13	184,198	193,994
Financial assets at fair value through other comprehensive income	14	1,340,531	1,538,641
Investments in subsidiaries		36,124	36,124
Investments in associates		-	-
Property, plant and equipment and intangible assets		46,804	47,309
Foreclosed assets	16	24,408	24,198
Other assets	17	26,101	23,922
Total assets		26,639,601	26,446,485
Liabilities			
Deposits from customers		179,902	176,769
Borrowings	18	14,586,270	14,400,453
Debt securities issued	19	1,202,392	1,158,291
Provisions for guarantees, commitments and other liabilities	20	97,852	120,631
Other liabilities	21	303,172	323,247
Total liabilities		16,369,588	16,179,391
Equity			
Founder's capital		7,109,632	7,109,632
Retained earnings and reserves		3,074,406	2,919,356
Other reserves		51,763	70,870
Profit for the year		21,753	155,050
Guarantee fund		12,459	12,186
Total equity		10,270,013	10,267,094
Total liabilities and total equity		26,639,601	26,446,485

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 - 31 March

(All amounts are expressed in HRK thousand)

	Notes	2020 HRK '000	2019 HRK '000
Operating activities			
Profit before income tax		21,753	21,263
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation and amortization		2,113	1,859
Impairment loss and provisions		17,650	36,052
Accrued interest		(1,920)	6,591
Deferred fees		(1,731)	756
Other changes in assets at fair value		(623)	(1,207)
<i>Operating profit before working capital changes</i>		<i>37,242</i>	<i>65,314</i>
<i>Changes in operating assets and liabilities:</i>			
Net decrease in deposits with other banks, before impairment		394,695	15,445
Net decrease in loans to financial institutions, before impairment		29,222	(31,788)
Net increase in loans to other customers, before impairment		(383,576)	(839,846)
Decrease of discount in debt securities issued		1,064	916
Net increase in foreclosed assets		(210)	(553)
Net increase in other assets, before impairment		(3,186)	(5,876)
Net increase/decrease in deposits from banks and companies		3,133	(101,981)
Net decrease in other liabilities, before provisions		(20,075)	(15,613)
Net cash used in operating activities		58,309	(913,982)
Investment activities			
Purchase of financial assets at fair value through profit or loss income		(481)	(87)
Sale of financial assets at fair value through profit or loss		7,000	-
Purchase of financial assets at fair value through other comprehensive income		(149,977)	(372,696)
Sale of financial assets at fair value through other comprehensive income		330,000	1,266,397
Purchase of property, plant and equipment and intangible assets		(1,085)	(449)
Net cash provided from investment activities		185,457	893,165
Financing activities			
Increase in borrowings – withdrawn funds		485,986	449,129
Decrease in borrowings – repayments of principle		(629,359)	(848,619)
Other		-	2
Net cash used in financing activities		(143,373)	(399,488)
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		342,524	29,898
Net effect		342,524	29,898
Net increase/decrease in cash and cash equivalents		442,917	(390,407)
Cash and cash equivalents balance as of 1 January, before impairment		881,966	942,722
Net increase/decrease in cash and cash equivalents		442,917	(390,407)
Cash and cash equivalents balance as at 31 March before impairment	9	1,324,883	552,315
Additional note – operating activities			
Interest paid		49,730	49,850
Interest received		105,912	121,302

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

Condensed Separate Interim Financial Statements of the Bank
Statement of Changes in Equity
for the period 1 January - 31 March

(All amounts are expressed in HRK thousand)

	Founder's capital	Retained earnings and reserves	Other reserves	Net profit for the period	Guarantee fund	Total equity
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	-	-	-	21,263	-	21,263
Other comprehensive income	-	-	10,320	-	-	10,320
Total comprehensive income	-	-	10,320	21,263	-	31,583
Net foreign exchange – Guarantee fund	-	-	-	-	12	12
Transfer of profit 2018 to retained earnings	-	204,328	-	(204,328)	-	-
Balance as at 31 March 2019	7,059,632	2,919,356	73,198	21,263	12,158	10,085,607
Balance as at 1 January 2020	7,109,632	2,919,356	70,870	155,050	12,186	10,267,094
Profit for the period	-	-	-	21,753	-	21,753
Other comprehensive income	-	-	(19,107)	-	-	(19,107)
Total comprehensive income	-	-	(19,107)	21,753	-	2,646
Net foreign exchange – Guarantee fund	-	-	-	-	273	273
Transfer of profit 2019 to retained earnings	-	155,050	-	(155,050)	-	-
Balance as at 31 March 2020	7,109,632	3,074,406	51,763	21,753	12,459	10,270,013

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

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

for the period 1 January - 31 March 2020

(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 separate and consolidated financial statements of the Bank and the Group (“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.

As of 31 March 2020, the Group had 394 employees (31 March 2019: 387 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 Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2020 (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 Burić, 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.

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.

As of 31 March 2020, HBOR had 374 employees (31 March 2019: 367 employees).

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, Chief Audit Executive at Infobip, Member of the Audit Committee.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

1. General information (continued)

1.2. Bank (continued):

1.2.1. Activities of the Bank:

The principal activities of the Bank comprise the following:

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

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

1.3. Impact of COVID-19 on HBOR's business and implementation of proposed measures to assist the economy in the coronavirus outbreak

The emergence of COVID-19 (coronavirus) and the global spread since February 2020 have created significant immediate challenges and risks and it is undoubtedly like to affect economic activity in the Republic of Croatia, including the HBOR Group. The long-term level of impact on the Group's operations is currently difficult to quantify, but since the HBOR Group has high capitalization and liquidity as well as the appropriate level of provisions for exposure to business continuity is beyond doubt.

In order to make the crisis caused by the epidemic in the Republic of Croatia easier to overcome, the Government of the Republic of Croatia adopted a Proposal of measures to assist the economy in the wake of the coronavirus epidemic. The aim of the measures is to preserve the level of economic activity, the liquidity of economic operators and, most importantly, to preserve the jobs. HBOR, as a development bank, will have an extremely important role and will be very active in implementing the following measures in these changed conditions:

- Introduction of moratorium on clients' loan obligations under existing placements,
- Rescheduling of existing loans to HBOR's clients with introduction of a grace period in the loan principal repayment,
- Approval of new liquidity loans to economic entities for financing salaries, overhead expenses and other basic operating expenses, the so-called idle mode (excluding loan obligations to commercial banks and other financial institutions) in cooperation with commercial banks,
- Approval of guarantees (insurance policies) to commercial banks of exporters and to HBOR under the Export Insurance Guarantee Fund with the aim of granting new loans for working capital – liquidity,
- Expanding the scope of the Export Insurance Guarantee Fund by including the tourism sector with the aim of enabling the issuance of guarantees (insurance policies) for loans to banks and to HBOR, for additional liquidity funds to exporters and tourism sector,
- Expanding the scope of the Export Insurance Guarantee Fund by further extending the circle of eligible beneficiaries of insurance policies from exports and tourism to economic entities that are indirect exporters or are suppliers of direct exporters.

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

for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

1. General information (continued)

1.3. Impact of COVID-19 on HBOR's business and implementation of proposed measures to assist the economy in the coronavirus outbreak (continued)

Furthermore, HBOR Group is comprised of HBOR as the parent company and of subsidiary companies: Hrvatsko kreditno osiguranje d.d. (hereinafter: HKO) and Poslovni info servis d.o.o. constituting HKO Group that represents 0.2% of the parent company's total assets.

Although the Management Board of HKO has taken all necessary measures to mitigate the expected adverse impacts of the coronavirus pandemic (COVID-19) on the financial position of the Company and liquid capital, the audit company issued a recommendation to HBOR, as to the 100 percent owner of the Company, asking HBOR to express its support to the Company in the form of a Letter of Support in order to enable its further continuous operations and the meeting of all obligations.

The Letter of Support would be binding on HBOR, and the auditor's opinion will depend on the issuing of the Letter of Support. On 12 May 2020, the Management Board of HBOR sent a proposal to the Supervisory Board of HBOR on the approval of the issue of a non-binding Letter of support in favour of the company Hrvatsko kreditno osiguranje d.d. and expressed its readiness to consider the possibility of increasing the equity capital of HKO by HBOR by the maximum amount of up to HRK 11 million on the terms and conditions stated in the Letter of support, on which the Supervisory Board made a Decision at its meeting held on 14 May 2020.

2. Basis of Preparation of the Financial Statements

2.1. Statement of compliance

The Condensed Interim Financial Statements of the Bank and HBOR Group for the period 1 January to 31 March 2020 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 31 March 2020 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 2019.

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, financial assets at fair value through other comprehensive income and assets available for sale. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortized or historical cost.

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

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 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.

4. Summary of significant accounting policies

4.1. 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 2020 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.

4.1.1. Other standards

The following amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendment to IFRS 3 Business Combinations,
- Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform,
- Amendments to IAS 1 and IAS 8: Definition of Material,
- Amendments to References to Conceptual Framework in IFRS Standards.

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

5. Interest income calculated using the effective interest method

Interest income by borrowers:

	Group		Bank	
	Jan 1 - Mar 31, 2020 HRK '000	Jan 1 - Mar 31, 2019 HRK '000	Jan 1 - Mar 31, 2020 HRK '000	Jan 1 - Mar 31, 2019 HRK '000
Public sector	23,674	23,768	23,375	23,439
State-owned companies	8,768	8,788	8,768	8,788
Foreign companies	10,652	10,657	10,652	10,657
Domestic companies	73,853	66,883	73,853	66,883
Domestic financial institutions	34,608	41,322	34,608	41,322
Foreign financial institutions	103	290	103	290
Penalty interest	4,232	6,426	4,232	6,426
Other	4,632	5,166	4,632	5,166
	160,522	163,300	160,223	162,971

Interest income by type of facility:

	Group		Bank	
	Jan 1 - Mar 31, 2020 HRK '000	Jan 1 - Mar 31, 2019 HRK '000	Jan 1 - Mar 31, 2020 HRK '000	Jan 1 - Mar 31, 2019 HRK '000
Interest on loans				
- financial institutions	34,610	41,316	34,610	41,316
- other customers	118,736	113,989	118,736	113,989
	153,346	155,305	153,346	155,305
Investments in securities	7,073	7,694	6,774	7,365
- Bonds of the Republic of Croatia	6,963	7,429	6,669	7,111
- Corporate bonds	45	28	40	17
- Treasury bills of the Ministry of Finance	65	237	65	237
Deposits	103	301	103	301
	160,522	163,300	160,223	162,971

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 31 March 2020 amounts to HRK 10,145 thousand (1 January to 31 March 2019: HRK 13,403 thousand).

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

for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

6. Interest expense

Interest expense by type of payee:

	Group		Bank	
	Jan 1 - Mar 31, 2020 HRK '000	Jan 1 - Mar 31, 2019 HRK '000	Jan 1 - Mar 31, 2020 HRK '000	Jan 1 - Mar 31, 2019 HRK '000
Domestic financial institutions	223	2,189	223	2,189
Foreign financial institutions	72,491	79,555	72,491	79,555
Other	45	18	35	16
	72,759	81,762	72,749	81,760

Interest expense by type of facility:

	Group		Bank	
	Jan 1 - Mar 31, 2020 HRK '000	Jan 1 - Mar 31, 2019 HRK '000	Jan 1 - Mar 31, 2020 HRK '000	Jan 1 - Mar 31, 2019 HRK '000
Borrowings	53,668	64,071	53,668	64,071
Debt securities	17,911	17,434	17,911	17,434
Deposits	1,135	239	1,135	239
Leases – interest expenses on long term contracts	45	18	35	16
	72,759	81,762	72,749	81,760

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

7. Operating expenses

Operating expenses can be shown as follows:

	Group		Bank	
	Jan 1 - Mar 31, 2020	Jan 1 - Mar 31, 2019	Jan 1 - Mar 31, 2020	Jan 1 - Mar 31, 2019
	HRK '000	HRK '000	HRK '000	HRK '000
7 a) Employee expenses	23,443	23,381	22,456	22,492
7 b) Depreciation	2,203	1,867	2,113	1,859
7 c) Other expenses	12,469	12,345	11,543	10,936
Of which:				
<i>Administration expenses</i>	3,026	2,835	2,952	2,740
<i>Material and services</i>	6,533	6,197	6,178	5,798
<i>Other expenses</i>	2,910	3,313	2,413	2,398
	38,115	37,593	36,112	35,287

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

	Group		Bank	
	Jan 1 - Mar 31, 2020	Jan 1 - Mar 31, 2019	Jan 1 - Mar 31, 2020	Jan 1 - Mar 31, 2019
	HRK '000	HRK '000	HRK '000	HRK '000
Change in the claims provision	279	1,841	-	-
Change in the claims provision, reinsurer's share	(201)	(1,349)	-	-
Expenses of insurance operations	78	492	-	-

Loss provisions as at 31 March 2020 consisted of reported and unreported losses in the approximate proportion 43:57. At the end of Q1 2020, total reserves exceeded those at the end of 2019 by 10%. 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 Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2020 (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	
	Jan 1 - Mar	Jan 1 - Mar	Jan 1 - Mar	Jan 1 - Mar
	31, 2020	31, 2019	31, 2020	31, 2019
	HRK '000	HRK '000	HRK '000	HRK '000
Impairment losses on cash on hand and due from financial institutions	369	(701)	353	(702)
Impairment losses on deposits with other banks	(363)	(202)	(363)	(202)
Impairment losses on loans to financial institutions	(1,660)	(8,324)	(1,660)	(8,324)
Impairment losses on loans to other customers and interest	(2,289)	107,818	(2,289)	107,818
Modification loss – financial institutions	(278)	6,417	(278)	6,417
Modification loss – other customers	35,861	13,741	35,861	13,741
POCI assets – fair value adjustment at initial recognition	10,113	11,519	10,113	11,519
Impairment of financial assets at fair value through other comprehensive income	(97)	(1,550)	(97)	(1,553)
Impairment losses on other assets	(65)	10	(39)	51
Provisions for commitments	(23,893)	(5,288)	(23,893)	(5,288)
Provision for guarantees	185	(87,333)	185	(87,333)
Total	17,883	36,107	17,893	36,144

b) Other impairment losses and provisions

	Group		Bank	
	Jan 1 - Mar	Jan 1 - Mar	Jan 1 - Mar	Jan 1 - Mar
	31, 2020	31, 2019	31, 2020	31, 2019
	HRK '000	HRK '000	HRK '000	HRK '000
Impairment losses on foreclosed assets	-	95	-	95
Provision for other liabilities	(244)	(187)	(243)	(187)
Total	(244)	(92)	(243)	(92)
Total	17,639	36,015	17,650	36,052

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

9. Cash on hand and current accounts with banks

	Group		Bank	
	31 March 2020 HRK 000	31 December 2019 HRK 000	31 March 2020 HRK 000	31 December 2019 HRK 000
Account with the Croatian National Bank	618,330	233,240	618,330	233,240
Cash on hand	5	5	5	5
Foreign currency account - domestic banks	821	708	816	703
Foreign currency account - foreign banks	705,879	649,833	705,732	648,018
Domestic currency account - domestic banks	12,721	1,104	-	-
	1,337,756	884,890	1,324,883	881,966
Loss allowances	(859)	(483)	(839)	(479)
	1,336,897	884,407	1,324,044	881,487

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

31 March 2020	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	1,337,751	-	-	1,337,751	1,324,878	-	-	1,324,878
Loss allowances	(859)	-	-	(859)	(839)	-	-	(839)
Balance as of 31 March 2020	1,336,892	-	-	1,336,892	1,324,039	-	-	1,324,039

31 December 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	884,885	-	-	884,885	881,961	-	-	881,961
Loss allowances	(483)	-	-	(483)	(479)	-	-	(479)
Balance as of 31 December 2019	884,402	-	-	884,402	881,482	-	-	881,482

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (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:

	Jan 1 – Mar 31, 2020	Group Jan 1 - Dec 31, 2019	Jan 1 - Mar 31, 2020	Bank Jan 1 - Dec 31, 201
	HRK 000	HRK 000	HRK 000	HRK 000
Balance as of 1 January	483	1,668	479	1,651
Net increase/(decrease) of loss allowances on amounts due from banks	369	(1,190)	353	(1,177)
<i>Total recognised through Income Statement (Note 8)</i>	<i>369</i>	<i>(1,190)</i>	<i>353</i>	<i>(1,177)</i>
Net foreign exchange gain/loss on loss allowances	7	5	7	5
Balance at the end of the reporting period	859	483	839	479

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

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

for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

10. Deposits with other banks

	Group		Bank	
	31 March 2020 HRK '000	31 December 2019 HRK '000	31 March 2020 HRK '000	31 December 2019 HRK '000
Deposits with foreign banks	380	372,501	380	372,501
Deposits with domestic banks	159,794	182,343	159,794	182,343
Accrued interest	-	(118)	-	(118)
	160,174	554,726	160,174	554,726
Loss allowances	(918)	(1,256)	(918)	(1,256)
	159,256	553,470	159,256	553,470

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

**31 March
2020**

	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	160,174	-	-	160,174	160,174	-	-	160,174
Loss allowances	(918)	-	-	(918)	(918)	-	-	(918)
Balance as of 31 March 2020	159,256	-	-	159,256	159,256	-	-	159,256

**31 December
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	554,726	-	-	554,726	554,726	-	-	554,726
Loss allowances	(1,256)	-	-	(1,256)	(1,256)	-	-	(1,256)
Balance as of 31 December 2019	553,470	-	-	553,470	553,470	-	-	553,470

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

10. Deposits with other banks (continued)

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

	Group		Bank	
	Jan 1 – Mar 31, 2020 HRK 000	Jan 1 - Dec 31, 2019 HRK 000	Jan 1 –Mar 31, 2020 HRK 000	Jan 1 - Dec 31, 2019 HRK 000
Balance as of 1 January	1,256	1,361	1,256	1,361
Net (decrease) of loss allowances on deposits with other banks	(363)	(112)	(363)	(112)
<i>Total recognised through Income Statement (Note 8)</i>	<i>(363)</i>	<i>(112)</i>	<i>(363)</i>	<i>(112)</i>
Net foreign exchange gain/loss on loss allowances	25	7	25	7
Balance at the end of the reporting period	918	1,256	918	1,256

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

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

for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

11. Loans to financial institutions

	Group and Bank	
	31 March 2020	31 December 2019
	HRK '000	HRK '000
Long-term loans under loan programmes	9,408,769	9,395,321
Short-term loans and reverse repo transactions	99,176	141,075
Accrued interest	5,285	5,936
Deferred recognition of loan origination fees	(34,204)	(35,928)
	9,479,026	9,506,404
Loss allowances	(57,539)	(58,698)
	9,421,487	9,447,706

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

31 March 2020	Group and Bank			
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Total HRK 000
Gross amount	9,377,185	79,685	22,156	9,479,026
Loss allowances	(36,512)	(10,008)	(11,019)	(57,539)
Balance as of 31 March 2020	9,340,673	69,677	11,137	9,421,487

31 December 2019	Group and Bank			
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Total HRK 000
Gross amount	9,400,433	83,619	22,352	9,506,404
Loss allowances	(37,098)	(10,543)	(11,057)	(58,698)
Balance as of 31 December 2019	9,363,335	73,076	11,295	9,447,706

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

for the period 1 January - 31 March 2020 (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 - Mar 31, 2020 HRK 000	Group and Bank Jan 1 - Dec 31, 2019 HRK 000
Balance as of 1 January	58,698	117,154
Net decrease of loss allowances on loans to financial institutions	(1,660)	(58,486)
<i>Total recognised through Income Statement (Note 8)</i>	<i>(1,660)</i>	<i>(58,486)</i>
Net foreign exchange gain/loss on loss allowances	501	29
Loss allowances transferred to loans to other customers	(8)	(3)
Unwinding – changes due to the lapse of time	8	4
Balance at the end of the reporting period	57,539	58,698

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 31 March 2020 (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:

	31 March 2020 HRK '000	Group and Bank 31 December 2019 HRK '000
EU Projects	67,536	-
Financial Restructuring	4,142	-
Pre-Export Finance	1,025	-
Public Sector Investment	120,079	-
Private Sector Investment	83,969	-
Youth, Female, Start-up Entrepreneurship	19,242	-
Working Capital	827	-
Loan programme for reconstruction and development of the economy	1,576,793	1,637,578
Export financing	2,201,797	2,279,986
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	1,355,416	1,350,974
Loan programme for small and medium-sized enterprises	3,972,355	4,121,003
Loan programme for war-torn and demolished housing and business facilities	5,588	5,780
Other	99,176	141,075
Accrued interest	5,285	5,936
Deferred recognition of loan fees	(34,204)	(35,928)
	<u>9,479,026</u>	<u>9,506,404</u>
Loss allowances	(57,539)	(58,698)
	<u>9,421,487</u>	<u>9,447,706</u>

Average interest rates for total loans to financial institutions are stated at 0.52% (1 January - 31 March 2019: 0.61%) and are equal to average interests 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 49,176 thousand (31 December 2019: HRK 41,075 thousand). The above placements are collateralized by securities in the amount of HRK 51,628 thousand (31 December 2019: HRK 43,115 thousand).

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

for the period 1 January - 31 March 2020 (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	
	31 March 2020	31 December 2019
	HRK '000	HRK '000
Domestic companies	10,616,093	10,551,828
State-owned companies	1,325,190	1,253,879
Public sector	3,813,782	3,710,224
Foreign companies	955,291	794,802
Non-profit institutions	5,900	5,900
Other	553,202	557,577
Accrued interest	310,422	281,512
Deferred recognition of loan origination fees	(89,083)	(91,014)
	17,490,797	17,064,708
Loss allowances	(3,414,149)	(3,365,074)
	14,076,648	13,699,634

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

31 March 2020	Group and Bank				
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	POCI HRK 000	Total HRK 000
Gross amount	10,815,910	1,792,474	3,709,631	1,172,782	17,490,797
Loss allowances	(337,292)	(589,032)	(2,345,869)	(141,956)	(3,414,149)
Balance as of 31 March 2020	10,478,618	1,203,442	1,363,762	1,030,826	14,076,648

31 December 2019	Group and Bank				
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	POCI HRK 000	Total HRK 000
Gross amount	10,387,025	1,764,833	3,727,938	1,184,912	17,064,708
Loss allowances	(302,945)	(627,951)	(2,313,514)	(120,664)	(3,365,074)
Balance as of 31 December 2019	10,084,080	1,136,882	1,414,424	1,064,248	13,699,634

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

for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

12. Loans to other customers

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

	Jan 1 - Mar 31, 2020 HRK 000	Group and Bank Jan 1 - Dec 31, 2019 HRK 000
Balance as of 1 January	3,365,074	3,380,296
Net release of loss allowances on loans to other customers and interest	(2,289)	(33,136)
<i>Total recognised through Income Statement (Note 8)</i>	<u>(2,289)</u>	<u>(33,136)</u>
Net foreign exchange gain/loss on loss allowances	37,396	9,126
Write-offs	(114)	(26,751)
Write-off due to sale of receivables	-	(52)
Loss allowances transferred from loans to financial institutions	-	3
Unwinding – changes due to the lapse of time	10,560	33,618
Acquisition of immovable property	(799)	(6,475)
Conversion of receivables into shares	-	(1,812)
Interest transferred from the off-balance sheet records and other	4,321	10,257
Balance at the end of the reporting period	<u>3,414,149</u>	<u>3,365,074</u>

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

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

for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

12. Loans to other customers

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

	Group and Bank	
	31 March 2020	31 December 2019
	HRK '000	HRK '000
EU Projects	28,265	-
Financial Restructuring	278,135	-
Pre-Export Finance	1,467	-
Public Sector Investment	128,320	-
Private Sector Investment	334,029	-
Youth, Female, Start-up Entrepreneurship	4,436	-
Working Capital	266,473	-
Loan programme for reconstruction and development of the economy	3,152,649	3,968,956
Export financing	5,371,497	5,169,252
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	4,327,536	4,347,002
Loan programme for small and medium-sized enterprises	1,599,189	1,616,868
Other	1,777,462	1,772,132
Accrued interest	310,422	281,512
Deferred recognition of loan origination fees	(89,083)	(91,014)
	<u>17,490,797</u>	<u>17,064,708</u>
Loss allowances	(3,414,149)	(3,365,074)
	<u>14,076,648</u>	<u>13,699,634</u>

Average interest rates on loans to other customers are stated at 1,79% (1 January - 31 March 2019: 1.69%).

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

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

for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

13. Financial assets at fair value through profit or loss

	Group		Bank	
	31 March 2020 HRK '000	31 December 2019 HRK '000	31 March 2020 HRK '000	31 December 2019 HRK '000
Loans at FVPL:				
Mezzanine loans	1,357	2,234	1,357	2,234
	1,357	2,234	1,357	2,234
Investments in investment				
Investments in investment funds at FVPL	182,098	200,868	182,098	191,029
	182,098	200,868	182,098	191,029
Unlisted equity				
Investments in corporate	31	31	31	31
Depository receipt - DR	551	539	551	539
Investments in financial institutions' shares	161	161	161	161
	743	731	743	731
	184,198	203,833	184,198	193,994

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 2019: 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.

Non-listed equity securities in the amount of HRK 551 thousand relate to depository receipts (DR) of the Fortenova Group STAK Stichting taken over through the Settlement under the Extraordinary Administration Proceedings against the company Agrokor d.d. et al.

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 2019: HRK 161 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

14. Financial assets at fair value through other comprehensive income

	31 March 2020 HRK '000	Group 31 December 2019 HRK '000	31 March 2020 HRK '000	Bank 31 December 2019 HRK '000
Debt instruments:				
Listed debt instruments:				
Bonds of the Republic of Croatia	1,076,251	1,122,448	1,038,747	1,083,749
Corporate bonds	995	1,000	-	-
Treasury bills of the Ministry of Finance	265,014	414,788	265,014	414,788
Accrued interest	7,028	11,232	6,735	10,762
	1,349,288	1,549,468	1,310,496	1,509,299
Unlisted debt instruments:				
Corporate bonds	581	573	581	573
Convertible bonds - CB	2,272	2,155	2,272	2,155
Accrued interest	349	369	349	369
	3,202	3,097	3,202	3,097
Equity instruments:				
Unlisted equity instruments:				
Investments in shares of foreign legal entities - SWIFT	41	40	41	40
Shares of foreign financial institutions – EIF	26,792	26,205	26,792	26,205
	26,833	26,245	26,833	26,245
	1,379,323	1,578,810	1,340,531	1,538,641

Non-listed convertible bonds (CB) of the Fortenova Group TopCo B.V. in the amount of HRK 2,272 thousand (31 December 2019: HRK 2,155 thousand) have been taken over through the Settlement under the Extraordinary Administration Proceedings against the company Agrokor d.d. et al.

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

31 March 2020	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	1,349,288	907	2,295	1,352,490	1,310,496	907	2,295	1,313,698
Balance as of 31 March 2020	1,349,288	907	2,295	1,352,490	1,310,496	907	2,295	1,313,698

31 December 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	1,549,468	875	2,222	1,552,565	1,509,299	875	2,222	1,512,396
Balance as of 31 December 2019	1,549,468	875	2,222	1,552,565	1,509,299	875	2,222	1,512,396

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

14. Financial assets at fair value through other comprehensive income

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

	Group		Bank	
	Jan 1 – Mar 31, 2020 HRK 000	Jan 1 – Dec 31, 2019 HRK 000	Jan 1 – Mar 31, 2020 HRK 000	Jan 1 – Dec 31, 2019 HRK 000
Balance as of 1 January	3,355	6,746	3,283	6,459
Net (release) of loss allowances	(97)	(3,401)	(97)	(3,186)
<i>Total recognised through Income Statement (Note 8)</i>	<i>(97)</i>	<i>(3,401)</i>	<i>(97)</i>	<i>(3,186)</i>
Net foreign exchange gain/loss on loss allowances	49	10	49	10
Balance at the end of the reporting period	3,307	3,355	3,235	3,283

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

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (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 (%)	31 March 2020 HRK '000	Group 31 December 2019 HRK '000	31 March 2020 HRK '000	Bank 31 December 2019 HRK '000
Listed debt instruments:							
Debt instruments:							
<i>Bonds of the Republic of Croatia with a currency clause:</i>							
	RHMF-O-227E	22.7.2011.	22.7.2022.	6.5	164,313	164,005	164,313
	RHMF-O-247E	10.7.2013.	10.7.2024.	5.75	18,433	18,264	12,953
	RHMF-O-203E	5.3.2010.	5.3.2020.	6.5	-	753	-
	RHMF-O222E	5.2.2019.	5.2.2022.	0.5	15,202	14,963	15,202
<i>Bonds of the Republic of Croatia in foreign currency:</i>							
	XS1117298916	11.3.2015.	11.3.2025.	3.0	56,189	58,954	56,189
	XS1843434876	19.6.2019.	19.10.2029.	1.125	13,906	15,376	13,906
<i>Bonds of the Republic of Croatia in HRK:</i>							
	RHMF-O-203A	5.3.2010.	5.3.2020.	6.75	-	32,965	-
	RHMF-O-257A	9.7.2015.	9.7.2025.	4.5	9,906	10,229	-
	RHMF-O-26CA	14.12.2015.	14.12.2026.	4.25	46,313	47,643	36,792
	RHMF-O-217A	8.7.2016.	8.7.2021.	2.75	224,474	226,436	222,417
	RHMF-O-222A	7.2.2017.	7.2.2022.	2.25	72,229	72,918	72,229
	RHMF-O-282A	7.2.2017.	7.2.2028.	2.875	13,687	14,026	11,516
	RHMF-O-023BA	27.11.2017.	27.11.2023.	1.75	433,230	440,453	433,230
	RHMF-O-297A	9.7.2018.	9.7.2029.	2.38	3,310	3,483	-
	RHMF-O-34BA	27.11.2019.	27.11.2034.	1.00	1,964	1,980	-
	RHMF-O-403E	3.3.2020.	3.3.2040.	1.25	3,095	-	-
<i>Corporate bonds in HRK:</i>							
	JDGL-O-24XA	18.12.2019.	18.12.2024.	1.75	995	1,000	-
				0.112-			
	Treasury bills in HRK up to 364 days			0.145	248,816	399,912	249,816
	Treasury bills with currency clause up to 295 days			0.336	15,198	14,876	15,198
	Accrued interest				7,028	11,232	6,735
					1,349,288	1,549,468	1,310
							1,509,299
Unlisted debt instruments:							
<i>Corporate bonds with a currency clause:</i>							
	LNGU-O-31AE	24.7.2015.	15.10.2031.	4.5	581	573	581
<i>Bonds of foreign corporate in foreign currency</i>							
	Fortenova Group TopCo B.V.	1.4.2019.	1.4.2029.	2.5	2,272	2,155	2,272
	Accrued interest				349	369	349
					3,202	3,097	3,202
							3,097
Equity instruments:							
<i>Unlisted equity instruments:</i>							
	Investments in shares of foreign legal entities - SWIFT				41	40	41
	Investments in shares of foreign financial institutions - EIF				26,792	26,205	26,792
					26,833	26,245	26,833
							26,245
Total					1,379,323	1,578,810	1,340,531
							1,538,641

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

15. Debt instruments at amortized cost

	Group		Bank	
	31 March 2020	31 December 2019	31 March 2020	31 December 2019
	HRK '000	HRK '000	HRK '000	HRK '000
Debt instruments:				
Listed debt instruments:				
Bonds of the Republic of Croatia	-	448	-	-
Accrued interest	-	9	-	-
	-	457	-	-
Loss allowances	-	-	-	-
	-	457	-	-

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

31 March 2020	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	-	-	-	-	-	-	-	-
Loss allowances	-	-	-	-	-	-	-	-
Balance as of 31 March 2020	-	-	-	-	-	-	-	-
31 December 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	457	-	-	457	-	-	-	-
Loss allowances	-	-	-	-	-	-	-	-
Balance as of 31 December 2019	457	-	-	457	-	-	-	-

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

	Group		Bank	
	Jan 1 - Mar 31, 2020	Jan 1 - Dec 31, 2019	Jan 1 - Mar 31, 2020	Jan 1 - Dec 31, 2019
	HRK '000	HRK '000	HRK '000	HRK '000
Balance as of 1 January	-	2	-	-
Net release of loss allowances on debt instruments at amortised cost	-	(2)	-	-
Balance at the end of the reporting period	-	-	-	-

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%. The bonds were redeemed upon maturity on 5 March 2020 (31 December 2019: HRK 448 thousand).

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

for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

16. Foreclosed assets

	Group		Bank	
	31 March 2020 HRK '000	31 December 2019 HRK '000	31 March 2020 HRK '000	31 December 2019 HRK '000
Foreclosed assets	24,408	24,198	24,408	24,198
	24,408	24,198	24,408	24,198

In the reporting period 2020, acquisition of property took place with present value in the amount of HRK 215 thousand, acquisition value of HRK 586 thousand and provisions of HRK 371 thousand, and relates to land plot in the amount of HRK 65 thousand, acquisition value of HRK 212 thousand and provisions of HRK 147 thousand and buildings in the amount of HRK 151 thousand, acquisition value of HRK 374 thousand and provisions of HRK 223 thousand (in 2019, acquisition of property took place with present value in the amount of HRK 3,084 thousand, acquisition value of HRK 14,215 thousand and provisions of HRK 11,131 thousand, and relates to buildings).

Fair value of acquired property as at 31 March 2020 amounted to HRK 586 thousand.

In the reporting period 2020, there was no sale of the above assets (in 2019, sale of foreclosed assets took place with present value in the amount of HRK 4,244 thousand, acquisition value and provisions of HRK 9,361 thousand and provisions of HRK 5,117 thousand and relates to land plot in the amount of HRK 2,297 thousand, buildings in the amount of HRK 1,916 thousand and apartments of HRK 31 thousand).

In the reporting period 2020, foreclosed assets was transferred to lease on the item Investments in property in the amount of HRK 1,114 thousand (2019: HRK 1,124 thousand), which is presented under Other assets due to immaterial significance. In 2020, this property was depreciated in the amount of HRK 16 thousand (2019: HRK 83 thousand).

The fair value of foreclosed assets at the beginning of the reporting period stood at HRK 46,275 thousand and the end of the reporting period at HRK 44,208 thousand.

The amount of the adjustment for the Group and the Bank that has an effect on the profit or loss stood at HRK 0 thousand in 2020 (in 2019: increase of HRK 780 thousand).

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

for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

17. Other assets

	Group		Bank	
	31 March 2020 HRK '000	31 December 2019 HRK '000	31 March 2020 HRK '000	31 December 2019 HRK '000
Fees receivable	27,779	27,855	27,779	27,855
Other receivables	12,811	13,922	12,811	13,922
Prepaid expenses	2,433	2,537	2,263	2,397
Accrued income	13,170	9,257	13,170	9,257
Premium receivables	4,555	4,308	-	-
Receivables for reinsurance commissions	718	1,061	-	-
Receivables for risk assessment fees	185	299	-	-
Deferred tax liabilities	204	-	-	-
Leased assets	4,450	5,061	4,348	4,854
Other assets	1,211	1,085	1,179	1,073
	67,516	65,385	61,550	59,358
Loss allowances	(35,579)	(35,570)	(35,449)	(35,436)
	31,937	29,815	26,101	23,922

Lease assets are recognized in accordance with the application of the IFRS 16 and depreciation during the year stood at HRK 537 thousand for the Group and HRK 507 thousand for the Bank.

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

31 March 2020	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	8,930	-	37,074	44	46,048	3,472	-	37,074	44	40,590
Loss allowances	(153)	-	(35,419)	(7)	(35,579)	(23)	-	(35,419)	(7)	(35,449)
Balance as 31 March 2020	8,777	-	1,655	37	10,469	3,449	-	1,655	37	5,141
31 December 2019	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	10,290	73	37,038	44	47,445	4,622	73	37,038	44	41,777
Loss allowances	(164)	(18)	(35,382)	(6)	(35,570)	(30)	(18)	(35,382)	(6)	(35,436)
Balance as of 31 December 2019	10,126	55	1,656	38	11,875	4,592	55	1,656	38	6,341

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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	
	31 March 2020	31 December 2019	31 March 2020	31 December 2019
	HRK '000	HRK '000	HRK '000	HRK '000
Fees receivable	27,779	27,855	27,779	27,855
Other receivables	12,811	13,922	12,811	13,922
Premium receivables	4,555	4,308	-	-
Receivables for reinsurance	718	1,061	-	-
Receivables for risk assessment fees	185	299	-	-
	46,048	47,445	40,590	41,777
Loss allowance	(35,579)	(35,570)	(35,449)	(35,436)
Subtotal – credit risk	10,469	11,875	5,141	6,341

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

	Group		Bank	
	Jan 1 - Mar 31, 2020	Jan 1 - Dec 31, 2019	Jan 1 - Mar 31, 2020	Jan 1 - Dec 31, 2019
	HRK 000	HRK 000	HRK 000	HRK 000
Balance as of 1 January	35,570	34,118	35,436	33,883
Net (decrease)/increase of loss allowances on other assets	(65)	1,561	(39)	1,584
<i>Total recognised through Income statement (Note 8)</i>	<i>(65)</i>	<i>1,561</i>	<i>(39)</i>	<i>1,584</i>
Write-offs	-	(114)	-	(38)
Acquisition of immovable property	(6)	-	(6)	-
Net foreign exchange gain/loss on loss allowances	58	7	58	7
Other adjustments	22	(2)	-	-
Balance at the end of the reporting period	35,579	35,570	35,449	35,436

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

18. Deposits from customers

	Group		Bank	
	31 March 2020 HRK '000	31 December 2019 HRK '000	31 March 2020 HRK '000	31 December 2019 HRK '000
Bank deposits	645	1,320	645	1,320
Foreign currency regular accounts of companies	6	6	6	6
Foreign currency account of the Ministry of Finance of the Republic of Croatia	13,258	12,874	13,258	12,874
Foreign currency special purpose accounts of the companies	20,614	22,189	20,614	22,189
Foreign currency special accounts of foreign financial institutions	6,383	6,244	6,383	6,244
State institutions' deposits	120,181	121,958	120,181	121,958
Other deposits	18,815	12,178	18,815	12,178
	179,902	176,769	179,902	176,769

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 7,069 thousand (31 December 2019: HRK 6,889 thousand), 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 6,189 thousand (31 December 2019: HRK 5,985 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.

Foreign currency special accounts of foreign financial institutions relate to the proceeds of ELENA grant, and it relates to the first tranche of 40% of ELENA grant amount upon signing of the Finance Contract in the amount of EUR 839 thousand.

HBOR does not pay interest on the above deposits.

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

19. Borrowings

	31 March 2020	Group and Bank 31 December 2019
	HRK '000	HRK '000
Balance as of 1 January	14,385,635	14,863,426
New borrowings	485,986	3,036,226
Repayments	(629,359)	(3,581,195)
Net foreign exchange gain/loss	322,897	67,178
	<u>14,565,159</u>	<u>14,385,635</u>
Accrued interest	50,908	46,498
Deferred fees	(29,797)	(31,680)
	<u>14,586,270</u>	<u>14,400,453</u>

The bank is subject to various financial clauses from the Contract. On 31 March 2020 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 31 March 2020 HRK '000	Net book value 31 March 2020 HRK '000	Fair value 31 December 2019 HRK '000	Net book value 31 December 2019 HRK '000
Bonds EUR 150 million	6.37	1,151,931	1,141,037	1,141,506	1,114,976
Accrued interest		-	61,373	-	43,374
Deferred fees		-	(18)	-	(59)
		<u>1,151,931</u>	<u>1,202,392</u>	<u>1,141,506</u>	<u>1,158,291</u>

Bonds were issued on the Luxembourg Stock Exchange and are listed. 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 Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

21. Provisions for guarantees, commitments and other liabilities

	Group		Bank	
	31 March 2020 HRK '000	31 December 2019 HRK '000	31 March 2020 HRK '000	31 December 2019 HRK '000
Provisions for guarantees and commitments	35,180	57,716	35,180	57,716
Provisions for other liabilities	62,820	63,064	62,672	62,915
	98,000	120,780	97,852	120,631

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

	Group		Bank	
	Jan 1 - Mar 31, 2020 HRK '000	Jan 1 - Dec 31, 2019 HRK '000	Jan 1 - Mar 31, 2020 HRK '000	Jan 1 - Dec 31, 2019 HRK '000
Balance as of 1 January	57,716	261,283	57,716	261,283
Net increase/(release) of loss allowances on guarantees	185	(156,368)	185	(156,368)
<i>Total recognised through Income Statement (Note 8)</i>	<i>185</i>	<i>(156,368)</i>	<i>185</i>	<i>(156,368)</i>
Net (release) of loss allowances on commitments	(23,893)	(47,722)	(23,893)	(47,722)
<i>Total recognised through Income Statement (Note 8)</i>	<i>(23,893)</i>	<i>(47,722)</i>	<i>(23,893)</i>	<i>(47,722)</i>
Net foreign exchange on loss allowances	1,172	523	1,172	523
Balance at the end of the reporting period - Provisions for guarantees and commitments	35,180	57,716	35,180	57,716
Balance as of 1 January	63,064	60,208	62,915	60,078
Net (release)/increase of loss allowances on other liabilities	(244)	2,912	(243)	2,893
<i>Total recognised through Income Statement (Note 8)</i>	<i>(244)</i>	<i>2,912</i>	<i>(243)</i>	<i>2,893</i>
Unrealized actuarial gains/(losses)	-	(56)	-	(56)
Balance at the end of the reporting period - Provisions for other liabilities	62,820	63,064	62,672	62,915

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

Out of the total provisions for guarantees and commitments, the amount of HRK 4,872 thousand relates to financial institutions (31 December 2019: HRK 5,413 thousand), HRK 30,264 thousand relates to domestic companies (31 December 2019: HRK 52,262 thousand), HRK 22 thousand relates to the public sector (31 December 2019: HRK 20 thousand), HRK 22 thousand relates to other (31 December 2019: HRK 21 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

22. Other liabilities

	Group		Bank	
	31 March 2020	31 December 2019	31 March 2020	31 December 2019
	HRK '000	HRK '000	HRK '000	HRK '000
Deferred recognition of interest income	149,050	162,937	149,050	162,937
Liabilities in respect of subsidized interest	136,703	132,912	136,703	132,912
Accrued salaries	7,326	7,480	7,123	7,285
Liabilities to suppliers	196	4,977	36	4,879
Liabilities for prepaid receivables	1,264	4,335	1,264	4,335
Deferrable premium	3,582	3,560	-	-
Provisions for claims	5,575	5,449	-	-
Provisions for return premiums	941	991	-	-
Liabilities to re-insurers	1,343	3,149	-	-
Deferred tax liabilities	956	694	-	-
Corporate income tax-current liability	-	29	-	-
Lease liabilities	5,450	5,944	4,502	4,926
Other liabilities	5,866	7,280	4,494	5,973
	318,252	339,737	303,172	323,247

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 136,703 thousand in respect of the Programme of Preferential Financing through HBOR's Loan Programmes (31 December 2019: HRK 132,912 thousand).

Deferred recognition of interest income of HRK 149,050 thousand (31 December 2019: HRK 162,937 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 8,784 thousand (31 December 2019: HRK 13,158 thousand), and in respect of those already in repayment stage amounting to HRK 140,266 thousand (31 December 2019: HRK 149,779 thousand).

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

for the period 1 January - 31 March 2020 (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 recognized in the Statement of financial position.

Group and Bank

	31 March 2020	31 December 2019
	HRK '000	HRK '000
Guarantees issued in HRK	72,194	62,102
Guarantees issued in foreign currency	204,992	210,972
Undrawn loans	3,992,531	3,995,159
Open letters of credit	1,623	11,693
EIF – subscribed, not called up capital	48,699	47,632
EIF CROGIP Contracted Liability	265,676	259,858
EIF FRC2 Contracted Liability	12,108	12,362
Other irrevocable contingent liabilities	93	93
	<u>4,597,916</u>	<u>4,599,871</u>
Provisions for guarantees and commitments	<u>(35,180)</u>	<u>(57,716)</u>
	<u>4,562,736</u>	<u>4,542,155</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	Without stage HRK 000	Total HRK 000
31 March 2020						
Gross amount	3,777,704	217,096	176,137	98,873	1,623	4,271,433
Loss allowances	(9,208)	(6,283)	(17,711)	(1,978)	-	(35,180)
Balance as of 31 March 2020	<u>3,768,496</u>	<u>210,813</u>	<u>158,426</u>	<u>96,895</u>	<u>1,623</u>	<u>4,236,253</u>

	Group and Bank					
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	POCI HRK 000	Without stage HRK 000	Total HRK 000
31 December 2019						
Gross amount	3,567,744	393,223	179,200	128,159	11,693	4,280,019
Loss allowances	(24,946)	(14,289)	(15,918)	(2,563)	-	(57,716)
Balance as of 31 December 2019	<u>3,542,798</u>	<u>378,934</u>	<u>163,282</u>	<u>125,596</u>	<u>11,693</u>	<u>4,222,303</u>

Without Stage position relates to Opened letters of credit covered by deposits.

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

for the period 1 January - 31 March 2020 (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 40%, 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 above contingent liability was reduced due to the completion of bankruptcy proceedings during which recourse payment was not collected.

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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.

Assets and liabilities as of 31 March 2020 and 31 December 2019, and income and expense for the period 1 January to 31 March 2020 and for the period 1 January to 31 March 2019 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
	31 March 2020	31 March 2020	31 December 2019	31 December 2019
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	3,388,845	214,332	3,575,330	203,649
Government funds, executive authorities and agencies	1,373,957	52,238	1,351,888	62,057
State-owned companies	1,227,896	3	1,154,176	27
Associates	7	-	7	-
Key management personnel	3,761	1,427	3,802	1,667
Total	5,994,466	268,000	6,085,203	267,400

Group	Income	Expense	Income	Expense
	Jan 1 – Mar 31 2020	Jan 1 – Mar 31 2020	Jan 1 – Mar 31 2019	Jan 1 – Mar 31 2019
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	13,983	67	14,035	454
Government funds, executive authorities and agencies	9,837	39	8,933	244
State-owned companies	12,036	526	16,030	2,868
Associates	-	-	-	-
Key management personnel	30	2,039	42	2,195
Total	35,886	2,671	39,040	5,761

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

24. Related-party transactions (continued)

a) Related-party transactions (continued)

Bank	Assets	Liabilities	Assets	Liabilities
	31 March 2020	31 March 2020	31 December 2019	31 December 2019
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	3,388,845	214,332	3,575,330	203,649
Government funds, executive authorities and agencies	1,336,127	52,230	1,312,254	62,004
State-owned companies	1,227,888	-	1,154,165	23
Subsidiary companies	36,124	-	36,124	-
Associates	7	-	7	-
Key management personnel	3,694	1,319	3,726	1,562
Total	5,992,685	267,881	6,081,606	267,238

Bank	Income	Expense	Income	Expense
	Jan 1 – Mar 31 2020	Jan 1 – Mar 31 2020	Jan 1 – Mar 31 2019	Jan 1 – Mar 31 2019
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	13,983	67	14,035	454
Government funds, executive authorities and agencies	9,535	35	8,465	139
State-owned companies	12,036	511	16,030	2,854
Subsidiary companies	-	-	-	-
Associates	-	-	-	-
Key management personnel	29	1,692	42	1,859
Total	35,583	2,305	38,572	5,306

Assets include loans to other customers, debt instruments at amortized 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 Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

24. Related-party transactions (continued)

b) Collateral received

	Group		Bank	
	31 March 2020	31 December 2019	31 March 2020	31 December 2019
	HRK '000	HRK '000	HRK '000	HRK '000
The Republic of Croatia	3,767,061	3,445,178	3,765,897	3,444,955
State agencies	342,967	399,285	342,967	399,285
Total	4,110,028	3,844,463	4,108,864	3,844,240

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

HBOR issues reinsurance policies for and on behalf of the Republic of Croatia, i.e. covers a proportional part (quota reinsurance) of political and commercial risks of export loans and receivables arising from export of goods and services. The reinsurer covers all non-marketable (non-market) risks underwritten by the Insurer or Hrvatsko kreditno osiguranje d.d. in the percentage ranging from 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 for the Group in the reporting period amounted to HRK 2,007 thousand (1 January to 31 March 2019: HRK 2,151 thousand), and for the Bank amounted to HRK 1,672 thousand (1 January to 31 March 2019: HRK 1,829 thousand).

Remuneration for the work of the members of the Supervisory Board for the Group amounted to HRK 32 thousand (1 January to 31 March 2019: HRK 44 thousand) and for the Bank amounted to HRK 20 thousand (1 January to 31 March 2019: HRK 30 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 31 March 2020 (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 about them to the relevant authorities. By the mentioned procedures and appropriate internal documents, a comprehensive and complete risk management system is provided.

The most significant risks the Group is exposed in its day-to-day business 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, controls 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 organizational 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 and early warning signals, monitors and controls limit utilization, 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 Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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. Procedures for liquidity crisis indication or occurrence are determined by the Ordinance on Liquidity Risk Management.

Interest rate risk in the Bank's book

The basic principles for managing the Group's interest rate risk are determined in the internal documents as well as in the decisions and conclusions made by the Management Board and the Asset and Liability Management Committee. For the purpose of measurement and monitoring of interest rate risk, the Group carries out interest rate gap analysis. Interest rate gap is calculated for certain periods according to the possibilities of interest rate changes and is used for presenting the sensitivity of the Group to the changes in interest rates under regular and stress conditions. Detailed breakdown of interest rates under regular operating conditions and under stress are prepared as well. 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 early warning signals as well as 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 calculates, for the measurement/assessment of currency risk, the risk value 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 reporting system was established as well as the manners of establishing, managing and monitoring the exposure to operational risk. The management system covers the operational risk at business changes, new products included, and operational risk at the outsourcing of activities.

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

for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.1. Overview of the most important risks (continued)

Operational risk (continued)

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 utilization. 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.

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 Ordinance 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 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,

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.1. Overview of the most important risks (continued)

- **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 a functionally and organizationally separate and independent organizational unit for the control of business risks, which is directly responsible to the Management Board. This organizational 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.

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

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

Risk measurement and reporting systems

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

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

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

for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

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.

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 loan 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 Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2020 (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

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

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

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

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

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

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

for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.2. Impairment assessment (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. 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 value 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:

- recognized 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 Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.2. Impairment assessment (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 Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.2. Impairment assessment (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 relevant period are collected.

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

- 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 Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.2. Impairment assessment (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 Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.2. Impairment assessment (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 based on the observed criteria such as:

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

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

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

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 Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.2. Impairment assessment (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 recognizing 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 projecting their impact on the current value of risk parameters.

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

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

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

For the calculation of expected credit losses, the Group uses a large number of macroeconomic conditions, of which for one of them (GDP), correlations on total PDs have been established for all homogenous groups.

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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 conversion of contractual cash flows from financial assets is deemed to be modification.

A change of placement terms and conditions includes changes to certain contractual terms defined, mostly for the purpose of adaptation to changes during the implementation of an investment, and possibly also during repayments, and not caused by financial difficulties of the client. The amended terms would most frequently be accepted when approved if known or are the result of circumstances not controlled by the client.

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

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

Evidence on concession includes the following:

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 31 March 2020 (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 31 March 2020, the highest credit exposure of the Group to one debtor equaled HRK 2,621,759 thousand and of the Bank HRK 2,608,886 thousand (31 December 2019: HRK 2,578,585 thousand for the Group and HRK 2,575,661 thousand for the Bank) without considering the effect of mitigation through collateral received.

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

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

25.3.7. Risk-Sharing Model

The Risk-Sharing Model covers the manner of implementing 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 Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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, HBOR entered collaterals covering outstanding placements in its business records if agency businesses with commercial banks were terminated (e.g. because the banks sold their exposures etc.) or placements 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 amount 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 Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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 Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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.

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 Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2020 (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 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
	31 March	31 December	31 March	31 December
	2020	2019	2020	2019
	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	1,336,892	884,402	1,324,039	881,482
Deposits with other banks	159,256	553,470	159,256	553,470
Loans to financial institutions	9,421,487	9,447,706	9,421,487	9,447,706
Loans to other customers	14,076,648	13,699,634	14,076,648	13,699,634
Financial assets at fair value through profit or loss	1,357	2,234	1,357	2,234
Financial assets at fair value through other comprehensive income	1,352,490	1,552,565	1,313,698	1,512,396
Debt instruments at amortized cost	-	457	-	-
Other assets	10,469	11,875	5,141	6,341
Total	26,358,599	26,152,343	26,301,626	26,103,263
Guarantees and commitments				
Guarantees issued in HRK	71,472	61,481	71,472	61,481
Issued guarantees in foreign currency	188,360	194,737	188,360	194,737
Open letters of credit in foreign currency	1,623	11,693	1,623	11,693
Undrawn loans	3,974,705	3,954,299	3,974,705	3,954,299
Other irrevocable contingent liabilities	93	93	93	93
Total	4,236,253	4,222,303	4,236,253	4,222,303
Total credit risk exposure	30,594,852	30,374,646	30,537,879	30,325,566

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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 HRK '000	EU countries HRK '000	Other countries HRK '000	Total HRK '000
31 March 2020				
Assets				
Cash on hand and current accounts with banks	631,414	690,304	15,174	1,336,892
Deposits with other banks	158,876	380	-	159,256
Loans to financial institutions	9,421,487	-	-	9,421,487
Loans to other customers	13,373,469	-	703,179	14,076,648
Financial assets at fair value through profit or loss	1,357	-	-	1,357
Financial assets at fair value through other comprehensive income	1,350,195	2,295	-	1,352,490
Debt instruments at amortized cost	-	-	-	-
Other assets	6,369	3,757	343	10,469
Total	24,943,167	696,736	718,696	26,358,599
Guarantees and commitments				
Guarantees issued in HRK	71,472	-	-	71,472
Issued guarantees in foreign currency	188,360	-	-	188,360
Open letters of credit in foreign currency	1,623	-	-	1,623
Undrawn loans	3,953,573	-	21,132	3,974,705
Other irrevocable contingent liabilities	93	-	-	93
Total	4,215,121	-	21,132	4,236,253
Total credit risk exposure	29,158,288	696,736	739,828	30,594,852

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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 (continued):

Group	Republic of Croatia HRK '000	EU countries HRK '000	Other countries HRK '000	Total HRK '000
31 December 2019				
Assets				
Cash on hand and current accounts with banks	236,641	633,321	14,440	884,402
Deposits with other banks	181,235	372,235	-	553,470
Loans to financial institutions	9,447,706	-	-	9,447,706
Loans to other customers	13,055,519	-	644,115	13,699,634
Financial assets at fair value through profit or loss	2,234	-	-	2,234
Financial assets at fair value through other comprehensive income	1,550,343	2,222	-	1,552,565
Debt instruments at amortized cost	457	-	-	457
Other assets	7,443	3,634	798	11,875
Total	24,481,578	1,011,412	659,353	26,152,343
Guarantees and commitments				
Guarantees issued in HRK	61,481	-	-	61,481
Issued guarantees in foreign currency	194,737	-	-	194,737
Open letters of credit in foreign currency	11,693	-	-	11,693
Undrawn loans	3,775,277	-	179,022	3,954,299
Other irrevocable contingent liabilities	93	-	-	93
Total	4,043,281	-	179,022	4,222,303
Total credit risk exposure	28,524,859	1,011,412	838,375	30,374,646

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

for the period 1 January - 31 March 2020 (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 (continued):

Bank 31 March 2020	Republic of Croatia HRK '000	EU countries HRK '000	Other countries HRK '000	Total HRK '000
Assets				
Cash on hand and current accounts with banks	618,561	690,304	15,174	1,324,039
Deposits with other banks	158,876	380	-	159,256
Loans to financial institutions	9,421,487	-	-	9,421,487
Loans to other customers	13,373,469	-	703,179	14,076,648
Financial assets at fair value through profit or loss	1,357	-	-	1,357
Financial assets at fair value through other comprehensive income	1,311,403	2,295	-	1,313,698
Other assets	5,117	24	-	5,141
Total	24,890,270	693,003	718,353	26,301,626
Guarantees and commitments				
Guarantees issued in HRK	71,472	-	-	71,472
Issued guarantees in foreign currency	188,360	-	-	188,360
Open letters of credit in foreign currency	1,623	-	-	1,623
Undrawn loans	3,953,573	-	21,132	3,974,705
Other irrevocable contingent liabilities	93	-	-	93
Total	4,215,121	-	21,132	4,236,253
Total credit risk exposure	29,105,391	693,003	739,485	30,537,879

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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 (continued):

Bank 31 December 2019	Republic of Croatia HRK '000	EU countries HRK '000	Other countries HRK '000	Total HRK '000
Assets				
Cash on hand and current accounts with banks	233,721	633,321	14,440	881,482
Deposits with other banks	181,235	372,235	-	553,470
Loans to financial institutions	9,447,706	-	-	9,447,706
Loans to other customers	13,055,519	-	644,115	13,699,634
Financial assets at fair value through profit or loss	2,234	-	-	2,234
Financial assets at fair value through other comprehensive income	1,510,174	2,222	-	1,512,396
Other assets	6,234	24	83	6,341
Total	24,436,823	1,007,802	658,638	26,103,263
Guarantees and commitments				
Guarantees issued in HRK	61,481	-	-	61,481
Issued guarantees in foreign currency	194,737	-	-	194,737
Open letters of credit in foreign currency	11,693	-	-	11,693
Undrawn loans	3,775,277	-	179,022	3,954,299
Other irrevocable contingent liabilities	93	-	-	93
Total	4,043,281	-	179,022	4,222,303
Total credit risk exposure	28,480,104	1,007,802	837,660	30,325,566

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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	Highest exposure	Highest exposure after the effect of mitigation through collateral received	Highest exposure	Highest exposure after the effect of mitigation through collateral received
	31 March	31 March	31 December	31 December
	2020	2020	2019	2019
	HRK '000	HRK '000	HRK '000	HRK '000
Financial intermediation and insurance	13,277,549	-	13,082,662	-
Water and electric supply and other infrastructure	1,900,907	1,110,126	1,859,000	1,571,256
Tourism	3,357,584	479,921	3,318,197	554,485
Transport, warehousing and connections	1,910,081	632,828	1,958,455	764,034
Shipbuilding	1,231,454	12,664	1,227,960	12,190
Agriculture and fishery	482,272	140,657	478,368	167,299
Food industry	889,604	342,618	864,720	500,569
Construction industry	1,549,082	111,262	1,217,933	113,301
Other industry	363,497	102,786	370,868	92,440
Public administration	2,842,504	2,841,923	3,040,733	3,040,152
Education	41,317	38,761	40,702	37,768
Manufacture of basic metals and fabricated metal products, except machinery and equipment	182,086	14,499	182,417	10,727
Manufacture of chemicals and chemical products	70,054	20,792	70,214	54,088
Manufacture of other non-metallic mineral products	176,215	63,463	175,818	62,144
Pharmaceutical industry	381,352	1,173	392,460	1,129
Other	1,939,294	259,039	2,094,139	329,475
Total credit risk exposure	30,594,852	6,172,512	30,374,646	7,311,057

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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:

Bank	Highest exposure	Highest exposure after the effect of mitigation through collateral received	Highest exposure	Highest exposure after the effect of mitigation through collateral received
	31 March 2020	31 March 2020	31 December 2019	31 December 2019
	HRK '000	HRK '000	HRK '000	HRK '000
Financial intermediation and insurance	13,260,607	-	13,075,404	-
Water and electric supply and other infrastructure	1,900,907	1,110,126	1,858,999	1,571,255
Tourism	3,357,565	479,902	3,318,194	554,481
Transport, warehousing and connections	1,910,004	632,750	1,958,417	763,997
Shipbuilding	1,231,454	12,664	1,227,960	12,190
Agriculture and fishery	482,229	140,614	478,368	167,299
Food industry	889,525	342,539	864,559	500,409
Construction industry	1,548,964	111,144	1,217,783	113,151
Other industry	363,173	102,462	370,867	92,440
Public administration	2,804,712	2,804,131	3,000,995	3,000,414
Education	41,317	38,761	40,702	37,768
Manufacture of basic metals and fabricated metal products, except machinery and equipment	182,012	14,426	182,351	10,661
Manufacture of chemicals and chemical products	70,031	20,770	70,192	54,066
Manufacture of other non-metallic mineral products	176,215	63,463	175,818	62,144
Pharmaceutical industry	380,179	-	391,331	-
Other	1,938,985	258,730	2,093,626	328,962
Total credit risk exposure	30,537,879	6,132,482	30,325,566	7,269,237

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 Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2020 (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 31 March 2020 amounted to HRK 24,422,340 thousand (31 December 2019: HRK 23,063,589 thousand) and for the Bank HRK 24,405,397 thousand (31 December 2019: HRK 23,056,329 thousand).

Net highest exposure as at 31 March 2020 for the Group amounted to HRK 6,172,512 thousand (31 December 2019: HRK 7,311,057 thousand) and for the Bank HRK 6,132,482 thousand (31 December 2019: HRK 7,269,237 thousand).

In the total net highest exposure after the effect of mitigation through collateral received as of 31 March 2020, the credit risk of HRK 4,377,677 thousand for the Group (31 December 2019: HRK 4,529,750 thousand) and HRK 4,339,885 thousand for the Bank (31 December 2019: HRK 4,490,125 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 2,077,995 thousand (31 December 2019: HRK 2,068,112 thousand), from local (regional) authorities of HRK 745,632 thousand (31 December 2019: HRK 708,453 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 205,697 thousand (31 December 2019: HRK 204,175 thousand), government funds of HRK 65 thousand (31 December 2019: HRK 86 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 1,348,288 thousand for the Group and HRK 1,310,496 thousand for the Bank (31 December 2019: HRK 1,548,924 thousand for the Group and HRK 1,509,299 thousand for the Bank).

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 bank.

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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 31 March 2020	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	Net subject to IFRS 9 HRK '000	Net exposure of total portfolio HRK '000	Net exposure of collateral received Stage 1 HRK '000	Net exposure of collateral received Stage 2 HRK '000	Net exposure of collateral received Stage 3 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000	Net subject to IFRS 9 after the effect of mitigation through collateral received HRK '000	Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000
Assets												
Cash on hand and current accounts with banks	1,336,892	-	-	-	-	1,336,892	-	-	-	-	-	-
Deposits with other banks	159,256	-	-	-	-	159,256	-	-	-	-	-	-
Loans to financial institutions	9,340,673	69,677	11,137	-	-	9,421,487	-	-	-	-	-	-
Loans to other customers	10,478,618	1,203,442	1,369,762	1,030,826	-	14,076,648	3,856,314	94,072	210,776	306,266	-	4,467,428
Financial assets at fair value through profit or loss	-	-	-	-	1,357	1,357	-	-	-	-	1,357	1,357
Financial assets at fair value through other comprehensive income	1,349,288	907	2,295	-	-	1,352,490	1,349,288	907	2,295	-	-	1,352,490
Debt instruments at amortized cost	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	8,777	-	1,655	37	-	10,469	2,430	-	1,597	37	-	4,064
Total	22,673,504	1,274,026	1,378,849	1,030,863	1,357	26,358,599	5,208,032	94,979	214,668	306,303	1,357	5,825,339
Guarantees and commitments												
Guarantees issued in HRK	58,453	-	13,019	-	-	71,472	24,149	-	8,369	-	-	32,518
issued guarantees in foreign currency	11,098	32,814	144,448	-	-	188,360	1,803	-	52,964	-	-	54,767
Open letters of credit in foreign currency	-	-	-	-	1,623	1,623	-	-	-	-	-	-
Undrawn loans	3,698,852	177,999	959	96,895	-	3,974,705	224,914	34,345	536	-	-	259,795
Other irrevocable contingent liabilities	93	-	-	-	-	93	-	-	-	-	-	93
Total	3,768,496	210,813	158,426	96,895	1,623	4,236,253	250,959	34,345	61,869	-	-	347,173
Total credit risk exposure	26,442,000	1,484,839	1,537,275	1,127,758	2,980	30,594,852	5,458,991	129,324	276,537	306,303	1,357	6,172,512

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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:

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 collateral received Stage 1 HRK '000	Net exposure of collateral received Stage 2 HRK '000	Net exposure of collateral received Stage 3 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000	Not subject to IFRS 9 after the effect of mitigation through collateral received HRK '000	Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000
Assets											
Cash on hand and current accounts with banks	884,402	-	-	-	-	-	-	-	-	-	-
Deposits with other banks	553,470	-	-	-	-	-	-	-	-	-	-
Loans to financial institutions	9,363,335	73,076	11,295	-	-	-	-	-	-	-	-
Loans to other customers	10,084,080	1,136,882	1,414,424	1,064,248	-	4,065,803	164,484	194,117	597,289	-	5,021,693
Financial assets at fair value through profit or loss	-	-	-	-	2,234	-	-	-	-	2,234	2,234
Financial assets at fair value through other comprehensive income	1,549,468	875	2,222	-	-	1,549,468	875	2,222	-	-	1,552,565
Debt instruments at amortized cost	457	-	-	-	-	457	-	-	-	-	457
Other assets	10,126	55	1,656	38	-	1,195	50	1,345	-	-	2,590
Total	22,445,338	1,210,888	1,429,597	1,064,286	2,234	5,616,923	165,409	197,684	597,289	2,234	6,579,539
Guarantees and commitments											
Guarantees issued in HRK	49,769	-	11,712	-	-	9,003	-	6,844	-	-	15,847
Issued guarantees in foreign currency	11,072	32,095	151,570	-	-	1,764	-	59,816	-	-	61,580
Open letters of credit in foreign currency	-	-	-	-	11,693	-	-	-	-	-	-
Undrawn loans	3,481,864	346,839	-	125,596	-	615,977	38,021	-	-	-	653,998
Other irrevocable contingent liabilities	93	-	-	-	-	93	-	-	-	-	93
Total	3,542,798	378,934	163,282	125,596	11,693	626,837	38,021	66,660	-	-	731,518
Total credit risk exposure	25,988,136	1,589,822	1,592,879	1,189,882	13,927	6,243,760	203,430	264,344	597,289	2,234	7,311,057

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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:

Bank	Net exposure of portfolio - risk Stage 1 HRK '000	Net exposure of portfolio - risk Stage 2 HRK '000	Net exposure of portfolio - risk Stage 3 HRK '000	Net exposure of portfolio of risk POCI HRK '000	Not subject to IFRS 9 HRK '000	Net exposure of total portfolio HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000	Not subject to IFRS 9 after the effect of mitigation through collateral received HRK '000	Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000
Assets												
Cash on hand and current accounts with banks	1,324,039	-	-	-	-	1,324,039	-	-	-	-	-	-
Deposits with other banks	159,256	-	-	-	-	159,256	-	-	-	-	-	-
Loans to financial institutions	9,340,673	69,677	11,137	-	-	9,421,487	-	-	-	-	-	-
Loans to other customers	10,478,618	1,203,442	1,363,762	1,030,826	-	14,076,648	94,072	210,776	306,266	-	4,467,428	-
Financial assets at fair value through profit or loss	-	-	-	-	1,357	1,357	-	-	-	-	1,357	1,357
Financial assets at fair value through other comprehensive income	1,310,496	907	2,295	-	-	1,313,698	907	2,295	-	-	1,313,697	-
Other assets	3,449	-	1,655	37	-	5,141	1,192	1,597	37	-	2,827	-
Total	22,616,531	1,274,026	1,378,849	1,030,863	1,357	26,301,626	94,979	214,668	306,303	1,357	5,785,309	5,785,309
Guarantees and commitments												
Guarantees issued in HRK	58,453	-	13,019	-	-	71,472	24,149	8,369	-	-	-	32,518
Issued guarantees in foreign currency	11,098	32,814	144,448	-	-	188,360	1,803	52,964	-	-	-	54,767
Open letters of credit in foreign currency	-	-	-	-	1,623	1,623	-	-	-	-	-	-
Undrawn loans	3,698,852	177,999	959	96,895	-	3,974,705	224,914	536	-	-	-	259,795
Other irrevocable contingent liabilities	93	-	-	-	-	93	-	-	-	-	-	93
Total	3,768,496	210,813	158,426	96,895	1,623	4,236,253	250,959	61,869	-	-	-	347,173
Total credit risk exposure	26,385,027	1,484,839	1,537,275	1,127,758	2,980	30,537,879	5,418,961	276,537	306,303	1,357	6,132,482	6,132,482

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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:

Bank	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 2019												
Assets												
Cash on hand and current accounts with banks	881,482	-	-	-	-	881,482	-	-	-	-	-	-
Deposits with other banks	553,470	-	-	-	-	553,470	-	-	-	-	-	-
Loans to financial institutions	9,363,335	73,076	11,295	-	-	9,447,706	-	-	-	-	-	-
Loans to other customers	10,084,080	1,136,882	1,414,424	1,064,248	-	13,699,634	4,065,803	164,484	194,117	-	5,021,693	-
Financial assets at fair value through profit or loss	-	-	-	-	2,234	2,234	-	-	-	-	2,234	2,234
Financial assets at fair value through other comprehensive income	1,509,299	875	2,222	-	-	1,512,396	1,509,299	875	2,222	-	-	1,512,396
Other assets	4,592	55	1,656	38	-	6,341	1	50	1,345	-	-	1,396
Total	22,396,258	1,210,888	1,429,597	1,064,286	2,234	26,103,263	5,575,103	165,409	197,684	597,289	2,234	6,537,719
Guarantees and commitments												
Guarantees issued in HRK	49,769	-	11,712	-	-	61,481	9,003	-	6,844	-	-	15,847
Issued guarantees in foreign currency	11,072	32,095	151,570	-	-	194,737	1,764	-	59,816	-	-	61,580
Open letters of credit in foreign currency	-	-	-	-	11,693	11,693	-	-	-	-	-	-
Undrawn loans	3,481,864	346,839	-	125,596	-	3,954,299	615,977	38,021	-	-	-	653,998
Other irrevocable contingent liabilities	93	-	-	-	-	93	93	-	-	-	-	93
Total	3,542,798	378,934	163,282	125,596	11,693	4,222,303	626,837	38,021	66,660	-	-	731,518
Total credit risk exposure	25,939,056	1,589,822	1,592,879	1,189,882	13,927	30,325,566	6,201,940	203,430	264,344	597,289	2,234	7,269,237

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

for the period 1 January - 31 March 2020 (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 31 March 2020 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 3,028,906 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 2,077,577 thousand, local and regional authorities of HRK 745,632 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 205,697 thousand.

As at 31 March 2020 the amount of financial assets at fair value through other comprehensive income is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 1,348,288 thousand for the Group and HRK 1,310,496 thousand for the Bank.

As at 31 March 2020 other assets of HRK 390 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

As at 31 December 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 2,979,445 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 2,066,817 thousand, local and regional authorities of HRK 708,453 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 204,175 thousand.

As at 31 December 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 1,548,924 thousand for the Group and HRK 1,509,299 thousand for the Bank.

As at 31 December 2019 other assets of HRK 1,288 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (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					
31 March 2020	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2020	483	-	-	-	483
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	369	-	-	-	369
Net foreign exchange loss on loss allowances	7	-	-	-	7
Balance at 31 March 2020	859	-	-	-	859

Group					
31 December 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2019	1,668	-	-	-	1,668
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(1,190)	-	-	-	(1,190)
Net foreign exchange loss on loss allowances	5	-	-	-	5
Balance at 31 December 2019	483	-	-	-	483

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances

Cash on hand and current accounts with banks (continued)

Bank					
31 March 2020	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2020	479	-	-	-	479
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	353	-	-	-	353
Net foreign exchange loss on loss allowances	7	-	-	-	7
Balance at 31 March 2020	839	-	-	-	839

Bank					
31 December 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2019	1,651	-	-	-	1,651
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(1,177)	-	-	-	(1,177)
Net foreign exchange loss on loss allowances	5	-	-	-	5
Balance at 31 December 2019	479	-	-	-	479

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances

Deposits with other banks

Group and Bank

31 March 2020

	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2020	1,256	-	-	-	1,256
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(363)	-	-	-	(363)
Net foreign exchange loss on loss allowances	25	-	-	-	25
Balance at 31 March 2020	918	-	-	-	918

Group and Bank

31 December 2019

	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2019	1,361	-	-	-	1,361
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(112)	-	-	-	(112)
Net foreign exchange loss on loss allowances	7	-	-	-	7
Balance at 31 December 2019	1,256	-	-	-	1,256

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances

Loans to financial institutions

Group and Bank

31 March 2020

	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2020	37,098	10,543	11,057	-	58,698
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(869)	(696)	(95)	-	(1,660)
Unwind – changes due to the lapse of time	-	-	8	-	8
Loss allowances transferred from/to loans to other customers	-	(8)	-	-	(8)
Net foreign exchange loss on loss allowances	283	169	49	-	501
Balance at 31 March 2020	36,512	10,008	11,019	-	57,539

Group and Bank

31 December 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 to Stage 1	251	(251)	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(41,274)	(10,177)	(7,035)	-	(58,486)
Unwind – changes due to the lapse of time	-	-	4	-	4
Loss allowances transferred from/to loans to other customers	(3)	-	-	-	(3)
Net foreign exchange loss on loss allowances	(2)	30	1	-	29
Balance at 31 December 2019	37,098	10,543	11,057	-	58,698

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances

Loans to other customers

Group and Bank 31 March 2020	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2020	302,945	627,951	2,313,514	120,664	3,365,074
Transfer to Stage 1	65,440	(57,918)	(7,522)		-
Transfer to Stage 2	(6,625)	11,366	(4,741)		-
Transfer to Stage 3	(697)	(10,612)	3,519	7,790	-
Net increase/(release) of loss allowance	(29,020)	7,271	16,479	2,981	(2,289)
Write-offs	-	-	(114)	-	(114)
Unwind – changes due to the lapse of time	(321)	(205)	5,564	5,522	10,560
Loss allowances transferred to/from loans to financial institutions		-	-	-	-
Acquisition of immovable property	-	-	(799)	-	(799)
Collection of interest transferred from the off-balance sheet records	-	-	-	-	-
Conversion of receivables into shares	-	-	-	-	-
Other	-	-	-	4,321	4,321
Net foreign exchange losses on loss allowances	5,570	11,179	19,969	678	37,396
Balance at 31 March 2020	337,292	589,032	2,345,869	141,956	3,414,149

Group and Bank 31 December 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 to Stage 1	322,355	(246,453)	(75,902)	-	-
Transfer to Stage 2	(55,309)	60,546	(5,237)	-	-
Transfer to Stage 3	(1,695)	(127,555)	42,943	86,307	-
Net increase/(release) of loss allowance	(312,295)	445,262	(116,126)	(49,977)	(33,136)
Write-offs	(197)	(10)	(26,544)	-	(26,751)
Unwind – changes due to the lapse of time	(2,913)	(64)	27,565	9,030	33,618
Loss allowances transferred to/from loans to financial institutions	3	-	-	-	3
Acquisition of immovable property	-	-	(6,475)	-	(6,475)
Collection of interest transferred from the off-balance sheet records	-	-	-	-	-
Conversion of receivables into shares	-	-	(1,812)	-	(1,812)
Write-of due to sale of receivables	-	-	(52)	-	(52)
Other	-	-	36	10,221	10,257
Net foreign exchange losses on loss allowances	1,118	1,668	5,479	861	9,126
Balance at 31 December 2019	302,945	627,951	2,313,514	120,664	3,365,074

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances

Financial assets at fair value through other comprehensive income

Group					
31 March 2020	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2020	1,422	426	1,507	-	3,355
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase/(release) of loss allowance	(172)	4	71	-	(97)
Net foreign exchange gain on loss allowances	5	10	34	-	49
Balance at 31 March 2020	1,255	440	1,612	-	3,307

Group					
31 December 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2019	5,007	-	1,739	-	6,746
Transfer to Stage 1	47	-	(47)	-	-
Transfer to Stage 2	(416)	416	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase/(release) of loss allowance	(3,217)	1	(185)	-	(3,401)
Net foreign exchange gain on loss allowances	1	9	-	-	10
Balance at 31 December 2019	1,422	426	1,507	-	3,355

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances

Financial assets at fair value through other comprehensive income

Bank					
31 March 2020	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2020	1,350	426	1,507	-	3,283
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(172)	4	71	-	(97)
Net foreign exchange gain on loss allowances	5	10	34	-	49
Balance at 31 March 2020	1,183	440	1,612	-	3,235

Bank					
31 December 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2019	4,720	-	1,739	-	6,459
Transfer to Stage 1	47	-	(47)	-	-
Transfer to Stage 2	(416)	416	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(3,002)	1	(185)	-	(3,186)
Net foreign exchange gain on loss allowances	1	9	-	-	10
Balance at 31 December 2019	1,350	426	1,507	-	3,283

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances

Other assets

Group 31 March 2020	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2020	164	18	35,382	6	35,570
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	(1)	1	-	-
Net increase/(release) of loss allowance	(32)	(17)	(16)	-	(65)
Other adjustments	22	-	-	-	22
Write-offs	-	-	(6)	-	(6)
Net foreign exchange gain on loss allowances	-	-	58	-	58
Balance at 31 March 2020	154	-	35,419	6	35,579

Group 31 December 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 to Stage 1	2	-	(2)	-	-
Transfer to Stage 2	(1)	1	-	-	-
Transfer to Stage 3	-	(6)	(36)	42	-
Net increase/(release) of loss allowance	(40)	23	1,614	(36)	1,561
Other adjustments	(2)	-	-	-	(2)
Write-offs	(76)	-	(38)	-	(114)
Net foreign exchange gain on loss allowances	-	-	7	-	7
Balance at 31 December 2019	164	18	35,382	6	35,570

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances

Other assets

Bank

31 March 2020

	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2020	30	18	35,382	6	35,436
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	(1)	1	-	-
Net increase/(release) of loss allowance	(6)	(17)	(16)	-	(39)
Foreclosed assets	-	-	-	-	-
Write-offs	-	-	(6)	-	(6)
Net foreign exchange loss on loss allowances	-	-	58	-	58)
Balance at 31 March 2020	24	-	35,419	6	35,449

Bank

31 December 2019

	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2019	46	-	33,837	-	33,883
Transfer to Stage 1	2	-	(2)	-	-
Transfer to Stage 2	(1)	1	-	-	-
Transfer to Stage 3	-	(6)	(36)	42	-
Net increase/(release) of loss allowance	(17)	23	1,614	(36)	1,584
Write-offs	-	-	(38)	-	(38)
Net foreign exchange loss on loss allowances	-	-	7	-	7
Balance at 31 December 2019	30	18	35,382	6	35,436

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances

Guarantees and commitments

Group and Bank 31 March 2020	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2020	24,946	14,289	15,918	2,563	57,716
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase/(release) of loss allowance	(16,236)	(8,327)	1,490	(635)	(23,708)
Net foreign exchange (gain)/loss on loss allowances	498	321	303	50	1,172
Balance at 31 March 2020	9,208	6,283	17,711	1,978	35,180

Group and Bank 31 December 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 to Stage 1	14,916	(14,916)	-	-	-
Transfer to Stage 2	2	(2)	-	-	-
Transfer to Stage 3	-	-	(2,904)	2,904	-
Net increase/(release) of loss allowance	904	(36,026)	(157,600)	(11,368)	(204,090)
Net foreign exchange (gain)/loss on loss allowances	(46)	139	426	4	523
Balance at 31 December 2019	24,946	14,289	15,918	2,563	57,716

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (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 31 March 2020 and 31 December 2019 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 31 March 2020	Up to 1 month HRK '000	1 to 3 months HRK '000	3 months to 1 year HRK '000	1 to 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
Assets						
Cash on hand and current accounts with banks	1,336,897	-	-	-	-	1,336,897
Deposits with other banks	158,876	-	-	-	380	159,256
Loans to financial institutions*	167,906	363,898	1,185,326	2,655,668	5,048,689	9,421,487
Loans to other customers	2,942,863	194,865	838,136	2,272,966	7,827,818	14,076,648
Financial assets at fair value through profit or loss	182,841	-	-	-	1,357	184,198
Financial assets at fair value through other comprehensive income	1,371,946	7,196	181	-	-	1,379,323
Property, plant and equipment and intangible assets	-	-	-	-	47,867	47,867
Foreclosed assets	-	162	2,044	19,713	2,489	24,408
Other assets	7,319	14,148	3,192	6,434	844	31,937
Total assets	6,168,648	580,269	2,028,879	4,954,781	12,929,444	26,662,021
Liabilities						
Deposits from customers	94,947	5,607	13,017	28,752	37,579	179,902
Borrowings	357,398	569,294**	1,577,294	4,199,718	7,882,566	14,586,270
Debt securities issued	-	1,202,392	-	-	-	1,202,392
Provisions for guarantees, commitments and other liabilities	48,724	2,801	9,044	18,239	19,192	98,000
Other liabilities	151,695	10,157	32,899	66,335	57,166	318,252
Total liabilities	652,764	1,790,251	1,632,254	4,313,044	7,996,503	16,384,816
Liquidity gap	5,515,884	(1,209,982)	396,625	641,737	4,932,941	10,277,205
Guarantees and commitments						
Guarantees issued in HRK	72,194	-	-	-	-	72,194
Issued guarantees in foreign currency	204,992	-	-	-	-	204,992
Open letters of credit in foreign currency	1,623	-	-	-	-	1,623
Undrawn loans	3,992,531	-	-	-	-	3,992,531
EIF – subscribed, not called up capital	48,699	-	-	-	-	48,699
EIF CROGIP Contracted Liability	-	14,500	42,600	113,550	95,026	265,676
EIF FRC2 Contracted Liability	252	836	1,900	7,000	2,120	12,108
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	4,320,384	15,336	44,500	120,550	97,146	4,597,916

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

* Receivables of HRK 49,176 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 Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.4. Liquidity risk (continued)

Group 31 December 2019	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	884,407	-	-	-	-	884,407
Deposits with other banks	33,184	519,914	-	-	372	553,470
Loans to financial institutions*	152,358	336,007	1,259,613	2,638,834	5,060,894	9,447,706
Loans to other customers	1,656,921	149,889	2,059,355	2,227,319	7,606,150	13,699,634
Financial assets at fair value through profit or loss	201,599	-	-	-	2,234	203,833
Financial assets at fair value through other comprehensive income	1,567,566	11,209	35	-	-	1,578,810
Debt instruments at amortized cost	-	457	-	-	-	457
Property, plant and equipment and intangible assets	-	-	-	-	48,281	48,281
Foreclosed assets	-	5,930	2,044	13,574	2,650	24,198
Other assets	8,609	5,957	10,389	4,182	678	29,815
Total assets	4,504,644	1,029,363	3,331,436	4,883,909	12,721,259	26,470,611
Liabilities						
Deposits from customers	89,551	24,257	12,248	15,152	35,561	176,769
Borrowings	353,615	315,555**	1,604,542	4,136,517	7,990,224	14,400,453
Debt securities issued	-	43,375	1,114,916	-	-	1,158,291
Provisions for guarantees, commitments and other liabilities	58,582	3,294	11,436	22,146	25,322	120,780
Other liabilities	157,671	12,079	35,580	67,540	66,867	339,737
Total liabilities	659,419	398,560	2,778,722	4,241,355	8,117,974	16,196,030
Liquidity gap	3,845,225	630,803	552,714	642,554	4,603,285	10,274,581
Guarantees and commitments						
Guarantees issued in HRK	61,481	-	-	-	-	61,481
Issued guarantees in foreign currency	194,737	-	-	-	-	194,737
Open letters of credit in foreign currency	11,693	-	-	-	-	11,693
Undrawn loans	3,954,299	-	-	-	-	3,954,299
EIF – subscribed, not called up capital	47,632	-	-	-	-	47,632
EIF CROGIP Contracted Liability	-	800	34,000	113,000	112,058	259,858
EIF FRC2 Contracted Liability	300	300	2,000	7,400	2,362	12,362
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	4,270,235	1,100	36,000	120,400	114,420	4,542,155

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

* Receivables of HRK 41,075 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 Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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 31 March 2020 and 31 December 2019 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 31 March 2020	Up to 1 month HRK '000	1 to 3 months HRK '000	3 months to 1 year HRK '000	1 to 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
Assets						
Cash on hand and current accounts with banks	1,324,044	-	-	-	-	1,324,044
Deposits with other banks	158,876	-	-	-	380	159,256
Loans to financial institutions*	167,906	363,898	1,185,326	2,655,668	5,048,689	9,421,487
Loans to other customers	2,942,863	194,865	838,136	2,272,966	7,827,818	14,076,648
Financial assets at fair value through profit	182,841	-	-	-	1,357	184,198
Financial assets at fair value through other	1,333,447	7,084	-	-	-	1,340,531
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	46,804	46,804
Foreclosed assets	-	162	2,044	19,713	2,489	24,408
Other assets	5,860	10,064	3,103	6,434	640	26,101
Total assets	6,115,837	576,073	2,028,609	4,954,781	12,964,301	26,639,601
Liabilities						
Deposits from customers	94,947	5,607	13,017	28,752	37,579	179,902
Borrowings	357,398	569,294**	1,577,294	4,199,718	7,882,566	14,586,270
Debt securities issued	-	1,202,392	-	-	-	1,202,392
Provisions for guarantees, commitments and other liabilities	48,724	2,801	8,896	18,239	19,192	97,852
Other liabilities	150,960	8,679	27,561	56,511	59,461	303,172
Total liabilities	652,029	1,788,773	1,626,768	4,303,220	7,998,798	16,369,588
Liquidity gap	5,463,808	(1,212,700)	401,841	651,561	4,965,503	10,270,013
Guarantees and commitments						
Guarantees issued in HRK	72,194	-	-	-	-	72,194
Issued guarantees in foreign currency	204,992	-	-	-	-	204,992
Open letters of credit in foreign currency	1,623	-	-	-	-	1,623
Undrawn loans	3,992,531	-	-	-	-	3,992,531
EIF -- subscribed, not called up capital	48,699	-	-	-	-	48,699
EIF CROGIP Contracted Liability	-	14,500	42,600	113,550	95,026	265,676
EIF FRC2 Contracted Liability	252	836	1,900	7,000	2,120	12,108
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	4,320,384	15,336	44,500	120,550	97,146	4,597,916

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

* Receivables of HRK 49,176 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 Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.4. Liquidity risk (continued)

Bank 31 December 2019	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	881,487	-	-	-	-	881,487
Deposits with other banks	33,184	519,914	-	-	372	553,470
Loans to financial institutions*	152,358	336,007	1,259,613	2,638,834	5,060,894	9,447,706
Loans to other customers	1,656,921	149,889	2,059,355	2,227,319	7,606,150	13,699,634
Financial assets at fair value through profit	191,760	-	-	-	2,234	193,994
Financial assets at fair value through other	1,527,510	11,131	-	-	-	1,538,641
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	47,309	47,309
Foreclosed assets	-	-	5,930	2,044	13,574	2,650
Other assets	7,127	1,630	10,306	4,181	678	23,922
Total assets	4,450,347	1,024,501	3,331,318	4,883,908	12,756,411	26,446,485
Liabilities						
Deposits from customers	89,551	24,257	12,248	15,152	35,561	176,769
Borrowings	353,615	315,555**	1,604,542	4,136,517	7,990,224	14,400,453
Debt securities issued	-	43,375	1,114,916	-	-	1,158,291
Provisions for guarantees, commitments and other liabilities	58,582	3,294	11,287	22,146	25,322	120,631
Other liabilities	156,976	8,827	30,247	59,344	67,853	323,247
Total liabilities	658,724	395,308	2,773,240	4,233,159	8,118,960	16,179,391
Liquidity gap	3,791,623	629,193	558,078	650,749	4,637,451	10,267,094
Guarantees and commitments						
Guarantees issued in HRK	61,481	-	-	-	-	61,481
Issued guarantees in foreign currency	194,737	-	-	-	-	194,737
Open letters of credit in foreign currency	11,693	-	-	-	-	11,693
Undrawn loans	3,954,299	-	-	-	-	3,954,299
EIF – subscribed, not called up capital	47,632	-	-	-	-	47,632
EIF CROGIP Contracted Liability	-	800	34,000	113,000	112,058	259,858
EIF FRC2 Contracted Liability	300	300	2,000	7,400	2,362	12,362
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	4,270,235	1,100	36,000	120,400	114,420	4,542,155

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

* *Receivables of HRK 41,075 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 Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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 31 March 2020	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	94,947	5,607	13,017	28,752	37,579	179,902
Borrowings	375,190	608,332	1,719,678	4,525,535	8,587,941	15,816,676
Debt securities issued	-	1,264,278	-	-	-	1,264,278
Provisions for guarantees, commitments and other liabilities	48,724	2,801	9,044	18,239	19,192	98,000
Other liabilities	151,695	10,157	32,899	66,335	57,166	318,252
Total	670,556	1,891,175	1,774,638	4,638,861	8,701,878	17,677,108
Guarantees and commitments						
Guarantees issued in HRK	72,194	-	-	-	-	72,194
Issued guarantees in foreign currency	204,992	-	-	-	-	204,992
Open letters of credit in foreign currency	1,623	-	-	-	-	1,623
Undrawn loans	3,992,531	-	-	-	-	3,992,531
EIF – subscribed, not called up capital	48,699	-	-	-	-	48,699
EIF CROGIP Contracted Liability	-	14,500	42,600	113,550	95,026	265,676
EIF FRC2 Contracted Liability	252	836	1,900	7,000	2,120	12,108
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	4,320,384	15,336	44,500	120,550	97,146	4,597,916
Group 31 December 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	89,551	24,257	12,248	15,152	35,561	176,769
Borrowings	375,094	342,026	1,757,887	4,536,871	8,983,313	15,995,191
Debt securities issued	-	43,374	1,181,900	-	-	1,225,274
Provisions for guarantees, commitments and other liabilities	58,582	3,294	11,436	22,146	25,322	120,780
Other liabilities	157,671	12,080	35,580	67,539	66,867	339,737
Total	680,898	425,031	2,999,051	4,641,708	9,111,063	17,857,751
Guarantees and commitments						
Guarantees issued in HRK	61,481	-	-	-	-	61,481
Issued guarantees in foreign currency	194,737	-	-	-	-	194,737
Open letters of credit in foreign currency	11,693	-	-	-	-	11,693
Undrawn loans	3,954,299	-	-	-	-	3,954,299
EIF – subscribed, not called up capital	47,632	-	-	-	-	47,632
EIF CROGIP Contracted Liability	-	800	34,000	113,000	112,058	259,858
EIF FRC2 Contracted Liability	300	300	2,000	7,400	2,362	12,362
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	4,270,235	1,100	36,000	120,400	114,420	4,542,155

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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):

Bank 31 March 2020	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	94,947	5,607	13,017	28,752	37,579	179,902
Borrowings	375,190	608,332	1,719,678	4,525,535	8,587,941	15,816,676
Debt securities issued	-	1,264,278	-	-	-	1,264,278
Provisions for guarantees, commitments and other liabilities	48,724	2,801	8,896	18,239	19,192	97,852
Other liabilities	150,960	8,679	27,561	56,511	59,461	303,172
Total	669,821	1,889,697	1,769,152	4,629,037	8,704,173	17,661,880
Guarantees and commitments						
Guarantees issued in HRK	72,194	-	-	-	-	72,194
Issued guarantees in foreign currency	204,992	-	-	-	-	204,992
Open letters of credit in foreign currency	1,623	-	-	-	-	1,623
Undrawn loans	3,992,531	-	-	-	-	3,992,531
EIF – subscribed, not called up capital	48,699	-	-	-	-	48,699
EIF CROGIP Contracted Liability	-	14,500	42,600	113,550	95,026	265,676
EIF FRC2 Contracted Liability	252	836	1,900	7,000	2,120	12,108
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	4,320,384	15,336	44,500	120,550	97,146	4,597,916
Bank 31 December 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	89,551	24,257	12,248	15,152	35,561	176,769
Borrowings	375,094	342,026	1,757,887	4,536,871	8,983,313	15,995,191
Debt securities issued	-	43,374	1,181,900	-	-	1,225,274
Provisions for guarantees, commitments and other liabilities	58,582	3,294	11,287	22,146	25,322	120,631
Other liabilities	156,976	8,828	30,246	59,344	67,853	323,247
Total	680,203	421,779	2,993,568	4,633,513	9,112,049	17,841,112
Guarantees and commitments						
Guarantees issued in HRK	61,481	-	-	-	-	61,481
Issued guarantees in foreign currency	194,737	-	-	-	-	194,737
Open letters of credit in foreign currency	11,693	-	-	-	-	11,693
Undrawn loans	3,954,299	-	-	-	-	3,954,299
EIF – subscribed, not called up capital	47,632	-	-	-	-	47,632
EIF CROGIP Contracted Liability	-	800	34,000	113,000	112,058	259,858
EIF FRC2 Contracted Liability	300	300	2,000	7,400	2,362	12,362
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	4,270,235	1,100	36,000	120,400	114,420	4,542,155

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk

25.5.1. Interest rate risk

The following tables demonstrate the sensitivity of the Group to the interest rate risk as of 31 March 2020 and 31 December 2019 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 31 March 2020 and 31 December 2019 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
31 March 2020								
Assets								
Cash on hand and current accounts with banks	718,675	-	-	-	-	618,222	1,336,897	718,675
Deposits with other banks	158,876	-	-	-	-	380	159,256	158,876
Loans to financial institutions	163,016	556,256	1,151,584	2,581,149	4,964,324	5,158	9,421,487	9,209,498
Loans to other customers	3,032,184	288,584	950,947	2,094,094	7,571,572	139,267	14,076,648	13,337,151
Financial assets at fair value through profit or loss	-	-	-	-	1,357	182,841	184,198	1,357
Financial assets at fair value through other comprehensive income	1,345,113	-	-	-	-	34,210	1,379,323	1,345,113
Other assets	-	-	-	-	-	31,937	31,937	-
Total assets	5,417,864	844,840	2,102,531	4,675,243	12,537,253	1,012,015	26,589,746	24,770,670
Liabilities								
Deposits from customers	-	-	-	-	-	179,902	179,902	-
Borrowings	357,398	657,629	1,563,370	4,162,587	7,794,378	50,908	14,586,270	14,391,477
Debt securities issued	-	1,141,019	-	-	-	61,373	1,202,392	1,141,019
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	98,000	98,000	-
Other liabilities	-	-	-	-	-	318,252	318,252	-
Total liabilities	357,398	1,798,648	1,563,370	4,162,587	7,794,378	708,435	16,384,816	15,532,496
Interest rate gap	5,060,466	(953,807)	539,161	512,656	4,742,875	303,580	10,204,930	9,238,174

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (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 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	650,921	-	-	-	-	233,486	884,407	650,921
Deposits with other banks	33,184	520,032	-	-	-	254	553,470	553,216
Loans to financial institutions	146,639	536,191	1,224,864	2,563,039	4,971,304	5,669	9,447,706	9,221,266
Loans to other customers	1,769,376	322,630	2,158,440	2,012,521	7,323,188	113,479	13,699,634	12,908,055
Financial assets at fair value through profit or loss	-	-	-	-	2,234	201,599	203,833	2,234
Financial assets at fair value through other comprehensive income	1,540,964	-	-	-	-	37,846	1,578,810	1,540,964
Debt instruments at amortized cost	-	448	-	-	-	9	457	448
Other assets	-	-	-	-	-	29,815	29,815	-
Total assets	4,141,084	1,379,301	3,383,304	4,575,560	12,296,726	622,157	26,398,132	24,877,104
Liabilities								
Deposits from customers	-	-	-	-	-	176,769	176,769	-
Borrowings	353,615	269,056	1,730,226	4,100,607	7,900,450	46,499	14,400,453	14,210,316
Debt securities issued	-	-	1,114,916	-	-	43,375	1,158,291	1,114,916
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	120,780	120,780	-
Other liabilities	-	-	-	-	-	339,737	339,737	-
Total liabilities	353,615	269,056	2,845,142	4,100,607	7,900,450	727,160	16,196,030	15,325,232
Interest rate gap	3,787,469	1,110,245	538,162	474,953	4,396,276	(105,003)	10,202,102	9,551,872

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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 the HBOR to the interest rate risk as of 31 March 2020 and 31 December 2019 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 HBORS's interest rate risk exposure as of 31 March and 31 December 2019 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
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
31 March 2020								
Assets								
Cash on hand and current								
accounts with banks	705,822	-	-	-	-	618,222	1,324,044	705,822
Deposits with other banks	158,876					380	159,256	158,876
Loans to financial institutions	163,016	556,256	1,151,584	2,581,149	4,964,324	5,158	9,421,487	9,209,498
Loans to other customers	3,032,184	288,584	950,947	2,094,094	7,571,572	139,267	14,076,648	13,337,151
Financial assets at fair value through profit or loss	-	-	-	-	1,357	182,841	184,198	1,357
Financial assets at fair value through other comprehensive income	1,306,614	-	-	-	-	33,917	1,340,531	1,306,614
Other assets	-	-	-	-	-	26,101	26,101	-
Total assets	5,366,512	844,840	2,102,531	4,675,243	12,537,253	1,005,886	26,532,265	24,719,318
Liabilities								
Deposits from customers	-	-	-	-	-	179,902	179,902	-
Borrowings	357,398	657,629	1,563,370	4,162,587	7,794,378	50,908	14,586,270	14,391,477
Debt securities issued	-	1,141,019	-	-	-	61,373	1,202,392	1,141,019
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	97,852	97,852	-
Other liabilities	-	-	-	-	-	303,172	303,172	-
Total liabilities	357,398	1,798,648	1,563,370	4,162,587	7,794,378	693,207	16,369,588	15,532,496
Interest rate gap	5,009,114	(953,807)	539,161	512,656	4,742,875	312,679	10,162,677	9,186,822

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.1. Interest rate risk (continued)

Bank	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total	Fixed interest rate
31 December 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	648,001	-	-	-	-	233,486	881,487	648,001
Deposits with other banks	33,184	520,032	-	-	-	254	553,470	553,216
Loans to financial institutions	146,639	536,191	1,224,864	2,563,039	4,971,304	5,669	9,447,706	9,221,266
Loans to other customers	1,769,376	322,630	2,158,440	2,012,521	7,323,188	113,479	13,699,634	12,908,055
Financial assets at fair value through profit or loss	-	-	-	-	2,234	191,760	193,994	2,234
Financial assets at fair value through other comprehensive income	1,501,265	-	-	-	-	37,376	1,538,641	1,501,265
Other assets	-	-	-	-	-	23,922	23,922	-
Total assets	4,098,465	1,378,853	3,383,304	4,575,560	12,296,726	605,946	26,338,854	24,834,037
Liabilities								
Deposits from customers	-	-	-	-	-	176,769	176,769	-
Borrowings	353,615	269,056	1,730,226	4,100,607	7,900,450	46,499	14,400,453	14,210,316
Debt securities issued	-	-	1,114,916	-	-	43,375	1,158,291	1,114,916
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	120,631	120,631	-
Other liabilities	-	-	-	-	-	323,247	323,247	-
Total liabilities	353,615	269,056	2,845,142	4,100,607	7,900,450	710,521	16,179,391	15,325,232
Interest rate gap	3,744,850	1,109,797	538,162	474,953	4,396,276	(104,575)	10,159,463	9,508,805

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.1. Interest rate risk (continued)

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

	Group		Bank	
	31 March	31 December	31 March	31 December
	2020	2019	2020	2019
	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Fixed interest rate assets	24,770,670	24,877,104	24,719,318	24,834,037
Variable interest rate assets	807,061	898,871	807,061	898,871
Non-interest bearing	1,012,015	622,157	1,005,886	605,946
Total	26,589,746	26,398,132	26,532,265	26,338,854
Liabilities				
Fixed interest rate liabilities	15,532,496	15,325,232	15,532,496	15,325,232
Variable interest rate liabilities	143,885	143,638	143,885	143,638
Non-interest bearing	708,435	727,160	693,207	710,521
Total liabilities	16,384,816	16,196,030	16,369,588	16,179,391

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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.

Currency	Increase in b. p. Mar 31,2020	Effect on profit Mar 31, 2020	Increase in b. p. Dec 31, 2019	Effect on profit Dec 31, 2019
		HRK '000		HRK '000
EUR	10	523	+6	295
USD	65	937	+17	468

Currency	Decrease in b. p. Mar 31, 2020	Effect on profit Mar 31, 2020	Decrease in b. p. Dec 31, 2019	Effect on profit Dec 31, 2019
		HRK '000		HRK '000
EUR	-10	(523)	-6	(295)
USD	-65	(937)	-17	(468)

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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 31 March 2020 and 31 December 2019 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
31 March 2020						
Assets						
Cash on hand and current accounts with banks	15,248	691,061	137	706,446	630,451	1,336,897
Deposits with other banks	-	159,256	-	159,256	-	159,256
Loans to financial institutions	-	4,641,742	-	4,641,742	4,779,745	9,421,487
Loans to other customers	370,423	8,728,550	-	9,098,973	4,977,675	14,076,648
Financial assets at fair value through profit or loss	-	51,211	-	51,211	132,987	184,198
Financial assets at fair value through other comprehensive income	-	320,589	-	320,589	1,058,734	1,379,323
Property, plant and equipment and intangible assets	-	-	-	-	47,867	47,867
Foreclosed assets	-	-	-	-	24,408	24,408
Other assets	-	4,189	-	4,189	27,748	31,937
Total assets	385,671	14,596,598	137	14,982,406	11,679,615*	26,662,021
Liabilities						
Deposits from customers	19,197	23,615	76	42,888	137,014	179,902
Borrowings	377,866	13,933,400	-	14,311,266	275,004	14,586,270
Debt securities issued	-	1,202,392	-	1,202,392	-	1,202,392
Provisions for guarantees, commitments and other liabilities	10,537	5,177	918	16,632	81,368	98,000
Other liabilities	953	7,640	55	8,648	309,604	318,252
Total liabilities	408,553	15,172,224	1,049	15,581,826	802,990	16,384,816
Currency gap	(22,882)	(575,626)	(912)	(599,420)	10,876,625	10,277,205

*Amounts linked to a one-way currency clause represent HRK 39,865 thousand.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (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 31 March 2020 and 31 December 2019 in HRK and foreign currencies can be shown as follows:

Group	USD	EUR	Other	Total	HRK	Total
	HRK '000	HRK '000	foreign currencies HRK '000	foreign currencies HRK '000	HRK '000	HRK '000
31 December 2019						
Assets						
Cash on hand and current accounts with banks	14,472	635,803	8	650,283	234,124	884,407
Deposits with other banks	-	553,470	-	553,470	-	553,470
Loans to financial institutions	-	4,596,801	-	4,596,801	4,850,905	9,447,706
Loans to other customers	500,047	8,346,335	-	8,846,382	4,853,252	13,699,634
Financial assets at fair value through profit or loss	-	62,169	-	62,169	141,664	203,833
Financial assets at fair value through other comprehensive income	-	324,388	-	324,388	1,254,422	1,578,810
Debt instruments at amortized cost	-	457	-	457	-	457
Property, plant and equipment and intangible assets	-	-	-	-	48,281	48,281
Foreclosed assets	-	-	-	-	24,198	24,198
Other assets	-	4,484	-	4,484	25,331	29,815
Total assets	514,519	14,523,907	8	15,038,434	11,432,177*	26,470,611
Liabilities						
Deposits from customers	13,158	28,939	536	42,633	134,136	176,769
Borrowings	489,042	13,896,411	-	14,385,453	15,000	14,400,453
Debt securities issued	-	1,158,291	-	1,158,291	-	1,158,291
Provisions for guarantees, commitments and other liabilities	10,069	5,143	1,023	16,235	104,545	120,780
Other liabilities	925	10,294	33	11,252	328,485	339,737
Total liabilities	513,194	15,099,078	1,592	15,613,864	582,166	16,196,030
Currency gap	1,325	(575,171)	(1,584)	(575,430)	10,850,011	10,274,581

*Amounts linked to a one-way currency clause represent HRK 40,105 thousand.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (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 31 March 2020 and 31 December 2019 in HRK and foreign currencies can be shown as follows:

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
31 March 2020	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets						
Cash on hand and current accounts with banks	15,248	690,909	137	706,294	617,750	1,324,044
Deposits with other banks	-	159,256	-	159,256	-	159,256
Loans to financial institutions	-	4,641,742	-	4,641,742	4,779,745	9,421,487
Loans to other customers	370,423	8,728,550	-	9,098,973	4,977,675	14,076,648
Financial assets at fair value through profit or loss	-	51,211	-	51,211	132,987	184,198
Financial assets at fair value through other comprehensive income	-	309,979	-	309,979	1,030,552	1,340,531
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	46,804	46,804
Foreclosed assets	-	-	-	-	24,408	24,408
Other assets	-	113	-	113	25,988	26,101
Total assets	385,671	14,581,760	137	14,967,568	11,672,033*	26,639,601
Liabilities						
Deposits from customers	19,197	23,615	76	42,888	137,014	179,902
Borrowings	377,866	13,933,400	-	14,311,266	275,004	14,586,270
Debt securities issued	-	1,202,392	-	1,202,392	-	1,202,392
Provisions for guarantees, commitments and other liabilities	10,537	5,177	918	16,632	81,220	97,852
Other liabilities	793	545	-	1,338	301,834	303,172
Total liabilities	408,393	15,165,129	994	15,574,516	795,072	16,369,588
Currency gap	(22,722)	(583,369)	(857)	(606,948)	10,876,961	10,270,013

* Amounts linked to a one-way currency clause represent HRK 39,865 thousand.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (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 2019						
Assets						
Cash on hand and current accounts with banks	14,472	633,983	8	648,463	233,024	881,487
Deposits with other banks	-	553,470	-	553,470	-	553,470
Loans to financial institutions	-	4,596,801	-	4,596,801	4,850,905	9,447,706
Loans to other customers	500,047	8,346,335	-	8,846,382	4,853,252	13,699,634
Financial assets at fair value through profit or loss	-	52,330	-	52,330	141,664	193,994
Financial assets at fair value through other comprehensive income	-	316,150	-	316,150	1,222,491	1,538,641
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	47,309	47,309
Foreclosed assets	-	-	-	-	24,198	24,198
Other assets	-	161	-	161	23,761	23,922
Total assets	514,519	14,499,230	8	15,013,757	11,432,728*	26,446,485
Liabilities						
Deposits from customers	13,158	28,939	536	42,633	134,136	176,769
Borrowings	489,042	13,896,411	-	14,385,453	15,000	14,400,453
Debt securities issued	-	1,158,291	-	1,158,291	-	1,158,291
Provisions for guarantees, commitments and other liabilities	10,069	5,143	1,023	16,235	104,396	120,631
Other liabilities	774	2,056	-	2,830	320,417	323,247
Total liabilities	513,043	15,090,840	1,559	15,605,442	573,949	16,179,391
Currency gap	1,476	(591,610)	(1,551)	(591,685)	10,858,779	10,267,094

* Amounts linked to a one-way currency clause represent HRK 40,105 thousand.

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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 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 31 March 2020.

Volatility of the exchange rate EUR/HRK, determined using the standard deviation method on the changes of the foreign exchange rate EUR/HRK, equalled 1.39% in the previous 12 months.

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

	Change in currency rate Mar 31, 2020 %	Effect on profit Mar 31, 2020 HRK' 000	Change in currency rate Dec 31, 2019 %	Effect on profit Dec 31, 2019 HRK' 000
EUR	+1.39	(5,654)	+1.22	(5,333)
EUR	-1.39	5,664	-1.22	5,428

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

26. Fair value of financial assets and financial liabilities

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

Below is a breakdown of the financial assets at fair value based on IFRS 9 classification on 31 March 2020 and 31 December 2019.

Group	31 March 2020		
	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	-	-	1,357
Investments in investment funds:			
Investments in investment funds at fair value through profit or loss			
Equity instruments:			
Listed equity instruments:			
Investments in corporate shares	182,098	-	-
Unlisted equity instruments:			
Investments in corporate shares			
Depository receipt - DR	-	-	31
Investment in financial institutions shares	-	-	551
Total financial assets at fair value through profit or loss	-	161	-
Financial assets at fair value through other comprehensive income:	182,098	161	1,939
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia			
Corporate bonds	1,076,251	-	-
Treasury bills of the Ministry of Finance	995	-	-
Accrued interest	265,014	-	-
Unlisted debt instruments:			
Corporate bonds	7,028	-	-
Convertible bonds - CB	-	-	581
Accrued interest	-	-	2,272
Total debt instruments	-	-	349
Unlisted equity instruments:			
Investment in shares of foreign legal entities	-	41	-
Shares of foreign financial institutions – EIF	-	26,792	-
Total equity instruments	-	26,833	-
Total financial assets at fair value through other comprehensive income	1,349,288	26,833	3,202

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 Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (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 2019		
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
Financial assets at fair value through profit or loss:			
<i>Loans at FVPL:</i>			
Mezzanine loans	-	-	2,234
<i>Investments in investment funds:</i>			
Investments in investment funds at fair value through profit or loss	200,868	-	-
Equity instruments:			
<i>Listed equity instruments:</i>			
Investments in corporate shares	-	-	-
<i>Unlisted equity instruments:</i>			
Investments in corporate shares	-	-	31
Depository receipt - DR	-	-	539
Investment in financial institutions shares	-	161	-
Total financial assets at fair value through profit or loss	200,868	161	2,804
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
<i>Listed debt instruments:</i>			
Bonds of the Republic of Croatia	1,122,448	-	-
Corporate bonds	1,000	-	-
Treasury bills of the Ministry of Finance	414,788	-	-
Accrued interest	11,232	-	-
<i>Unlisted debt instruments:</i>			
Corporate bonds	-	-	573
Convertible bonds - CB	-	-	2,155
Accrued interest	-	-	369
Total debt instruments	1,549,468	-	3,097
<i>Unlisted equity instruments:</i>			
Investment in shares of foreign legal entities	-	40	-
Shares of foreign financial institutions – EIF	-	26,205	-
Total equity instruments	-	26,245	-
Total financial assets at fair value through other comprehensive income	1,549,468	26,245	3,097

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (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 March 2020		
	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	-	-	1,357
Investments in investment funds:			
Investments in investment funds at fair value through profit or loss	182,098	-	-
Equity instruments:			
Listed equity instruments:			
Investments in companies' shares	-	-	-
Unlisted equity instruments:			
Investments in companies' shares	-	-	31
Depository receipt - DR	-	-	551
Investment in financial institutions shares	-	161	-
Total financial assets at fair value through profit or loss	182,098	161	1,939
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	1,038,747	-	-
Treasury bills of the Ministry of Finance	265,014	-	-
Accrued interest	6,735	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	581
Convertible bonds - CB	-	-	2,272
Accrued interest	-	-	349
Total debt instruments	1,310,496	-	3,202
Unlisted equity instruments:			
Investment in shares of foreign legal entities – SWIFT	-	41	-
Shares of foreign financial institutions – EIF	-	26,792	-
Total equity instruments	-	26,833	-
Total financial assets at fair value through other comprehensive income	1,310,496	26,833	3,202

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (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 2019		
	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	-	-	2,234
Investments in investment funds:			
Investments in investment funds at fair value through profit or loss	191,029	-	-
Equity instruments:			
Listed equity instruments:			
Investments in companies' shares	-	-	-
Unlisted equity instruments:			
Investments in companies' shares	-	-	31
Depository receipt - DR	-	-	539
Investment in financial institutions shares	-	161	-
Total financial assets at fair value through profit or loss	191,029	161	2,804
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	1,083,749	-	-
Treasury bills of the Ministry of Finance	414,788	-	-
Accrued interest	10,762	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	573
Convertible bonds - CB	-	-	2,155
Accrued interest	-	-	369
Total debt instruments	1,509,299	-	3,097
Unlisted equity instruments:			
Investment in shares of foreign legal entities – SWIFT	-	40	-
Shares of foreign financial institutions – EIF	-	26,205	-
Total equity instruments	-	26,245	-
Total financial assets at fair value through other comprehensive income	1,509,299	26,245	3,097

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

for the period 1 January - 31 March 2020 (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 mezzanine loans, the method of discounting expected future cash flows is used.

Due to their contractual characteristics, mezzanine loans do not pass the SPPI test. Characteristics due to which mezzanine loans do not pass the SPPI test are as follows:

- 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 characteristics of the mezzanine loan, the assessment of fair value of these loans 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 31 March 2020, the market price of ordinary shares of the debtor that the Bank could subscribe amounted to HRK 3,638 thousand, assuming that the market price of the shares included all market expectations related to future operations of the issuer. Given that HBOR can subscribe ordinary shares not earlier than on 30 April 2030, the amount of market value is reduced to the current value by applying the appropriate discount rate. The present value of these shares in HBOR's expected ownership amounts to HRK 1,357 thousand, which represents the fair value of the mezzanine loan on 31 March 2020.

b) Corporate bonds that are allocated to Stage 3

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

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

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

26.1.1. Level 3 - fair value (continued)

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

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

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

(ii) Sensitivity analysis of corporate bond with the stated potential effect on profit/loss as at 31 March 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 31 March 2020, the impacts would be as follows:

- a) In the case of a decrease in market yield on no-risk investment (linearly interpolated/extrapolated yield on bonds of the Republic of Croatia of the same duration and the same currency as the respective bond) by 2%, the discount rate would equal 10.95%, the bond price would be 38.60%, which would result in an increase in HBOR's generated profits of HRK 15.12 thousand.
- b) In the case of an increase in market yield on no-risk investment (linearly interpolated/extrapolated yield on bonds of the Republic of Croatia of the same duration and the same currency as the corporate bond) by 2%, the discount rate would equal 14.95%, the bond price would be 36.69%, which would result in a decrease in HBOR's generated profits of HRK 14.37 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 31 March 2020. "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 58.19 thousand.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (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:

Group and Bank	Mar 31, 2020 HRK '000	Mar31, 2019 HRK '000
Balance as at 1 January	2,234	2,045
Decrease in fair value through profit or loss	(877)	239
Balance as of 31 March	1,357	2,284

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

Group and Bank	Mar 31, 2020 HRK '000	Mar31, 2019 HRK '000
Balance as at 1 January	3,097	768
Increase in fair value through other comprehensive income	(58)	13
Net foreign exchange	116	1
Accrued interest	47	17
Balance as of 31 March	3,202	799

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (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 Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

27. Reporting by segments

31 March 2020	Banking activities HRK '000	Insurance activities HRK '000	Other activities HRK '000	Unallocated HRK '000	Total HRK '000
Net interest income	87,474	289	-	-	87,763
Net fee income	5,016	256	436	-	5,708
Net income/(expenses) from financial operations	(19,153)	77	-	-	(19,076)
Net premiums earned	-	1,635	-	-	1,635
Other income	2,178	8	73	(76)	2,183
Income from operating activities	75,515	2,265	509	(76)	78,213
Operating costs	(36,112)	(1,376)	(401)	76	(37,813)
Impairment loss and provisions	(17,650)	37	(26)	-	(17,639)
Expenses for insured cases	-	(112)	-	-	(112)
Net change in provisions	-	(78)	-	-	(78)
Other expenses	-	(112)	-	-	(112)
Operating expenses	(53,762)	(1,641)	(427)	76	(55,754)
Profit before income tax	21,753	624	82	-	22,459
Income tax	-	(228)	-	-	(228)
Profit for the year	21,753	396	82	-	22,231
Assets of segment	26,639,601	57,139	1,940	(36,659)	26,662,021
Total assets	26,639,601	57,139	1,940	(36,659)	26,662,021
Liabilities of segment	16,369,588	15,104	157	(33)	16,384,816
Total equity	10,270,013	4,535	1,483	1,174	10,277,205
Total liabilities and total equity	26,639,601	19,639	1,640	1,141	26,662,021

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 Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020 (continued)

(All amounts are expressed in HRK thousand)

27. Reporting by segments (continued)

31 March 2019	Banking activities HRK '000	Insurance activities HRK '000	Other activities HRK '000	Unallocated HRK '000	Total HRK '000
Net interest income	81,211	327	-	-	81,538
Net fee income	6,716	(577)	1,274	-	7,413
Net income/(expenses) from financial operations	3,415	16	4	113	3,548
Net premiums earned	-	1,476	-	-	1,476
Other income	1,260	20	73	(76)	1,277
Income from operating activities	92,602	1,262	1,351	37	95,252
Operating costs	(35,287)	(2,255)	355	76	(37,111)
Impairment loss and provisions	(36,052)	40	-	(3)	(36,015)
Expenses for insured cases	-	(56)	-	-	(56)
Net change in provisions	-	(372)	-	-	(372)
Other expenses	-	(54)	-	-	(54)
Operating expenses	(71,339)	(2,697)	355	73	(73,608)
Profit before income tax	21,263	(1,435)	1,706	110	21,644
Income tax	-	-	(14)	(19)	(33)
Profit for the year	21,263	(1,435)	1,692	91	21,611
31 December 2019					
Assets of segment	26,446,485	58,967	1,811	(36,652)	26,470,611
Total assets	26,446,485	58,967	1,811	(36,652)	26,470,611
Liabilities of segment	16,179,391	16,504	161	(26)	16,196,030
Total equity	10,267,094	4,963	1,350	1,174	10,274,581
Total liabilities and total equity	26,446,485	21,467	1,511	1,148	26,470,611

Intra-group transactions are presented under "Unallocated".

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2020 (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 31 March 2020 and 31 December 2019.

	Group		Bank	
	31 March 2020	31 December 2019	31 March 2020	31 December 2019
	HRK '000	HRK '000	HRK '000	HRK '000
Total regulatory capital	10,026,066	10,023,220	10,025,722	10,024,106
Credit risk weighted exposure amount	15,186,666	14,931,756	15,178,919	14,914,038
Credit requirements for operating risk	848,015	848,015	827,833	827,833
Capital requirements for currency risk	418,969	429,307	404,632	429,307
Total capital requirements	16,453,650	16,209,078	16,411,384	16,171,178
Capital adequacy ratio	60.94	61.84	61.09	61.99
	HRK '000	HRK '000	HRK '000	HRK '000
Own funds needed for ensuring capital adequacy according to regulatory requirements	1,974,438	1,945,089	1,969,366	1,940,541

Minimum capital adequacy ratio as of the reporting date, i.e. 31 March 2020 was 12% (31 December 2019: 12%).

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 31 March 2020

(All amounts are expressed in HRK thousand)

29. Subsequent events

29.1. Reconstruction of office building after earthquake

The office building at Strossmayerov trg 9 in Zagreb is currently not in use due to the consequences of the earthquake, and the assessment of damage is awaited, which cannot be expressed in financial terms at this moment.

The structure status assessment has been prepared as the building structure has been damaged and has to be repaired. The procurement procedure for the Reconstruction Project is being prepared, which will include an estimate of the building structure repair costs, whereas an additional architectural reconstruction project will be prepared containing an assessment of the costs that are not directly related to the building structure. Utility installations may also be damaged, which will be determined subsequently.

29.2. Redemption of an bond issue upon maturity

After the reporting period, on 8 May 2020 HBOR settled the bonds due of HRK 1,203,211 thousand, together with interest (EUR 159,000 thousand, together with interest).

According to the Agreement between HBOR and Deutsche Bank AG London Branch and J.P. Morgan Securities PLC (as joint lead managers), HBOR issued bonds on 13 August 2013 of EUR 150,000 thousand with maturity period of 6 years and 9 months and fixed interest rate of 6.0%. The bonds were listed in Luxembourg Stock Exchange.

Appendix - Financial Performance of the HKO Group
Statement of Profit or Loss and Other Comprehensive Income
for the period 1 January - 31 March

(All amounts are expressed in HRK thousand)

	Mar 31, 2020 HRK '000	Mar 31, 2019 HRK '000
Premium earned		
Gross premium written	2,925	2,337
Premium impairment allowance originated and reserved on collection	(22)	(2)
Gross outward reinsurance premium	(1,245)	(1,030)
Net premium written	1,658	1,305
Changes in the gross unearned premium reserve	(32)	336
Changes in the gross unearned premium reserve, reinsurer's share	9	(165)
Net premium earned	1,635	1,476
Fee and commission income	692	697
Net investment income	285	280
Other operating income	5	17
Net income	2,617	2,470
Gross expense for returned premiums	(212)	(87)
Reinsurer's share	100	33
Gross reserve for returned premiums	89	(104)
Reinsurer's share	(39)	48
Net expense and reserve for returned premiums	(62)	(110)
Claims incurred	(122)	(156)
Claims incurred, reinsurer's share	10	101
Change in the claims provision	(368)	(1,618)
Change in the claims provision, reinsurer's share	240	1,301
Net claims incurred	(240)	(372)
Marketing and provision expenses	(152)	(235)
Administrative expenses	(1,515)	(1,416)
Other operating expenses	(23)	(26)
Net exchange differences other than those on financial instruments	81	8
Profit before income tax	706	319
Income tax	(228)	3
Profit for the year	478	322
Other comprehensive income		
Items that are not transferred subsequently to profit or loss:		
Deferred tax – adjustment for previous period	-	-
Total items that are not transferred subsequently to profit or loss	-	-
Items that may be reclassified subsequently to profit or loss:		
Gains on revaluation of financial assets available for sale	476	835
Decrease in the fair value of financial assets available for sale	(1,166)	(79)
Transfer of realized gains on asset available for sale to profit or loss	(253)	-
Deferred tax	170	(135)
Total items that may be reclassified subsequently to profit or loss:	(773)	621
Other comprehensive income after income tax	(773)	621
Total comprehensive income after income tax	(295)	943
Attributable to:		
Equity holder of the parent	(295)	943

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
Statement of Financial Position as of
as of

(All amounts are expressed in HRK thousand)

	Mar 31, 2020 HRK '000	Dec 31, 2019 HRK '000
Assets		
Non-current assets		
Property and equipment	928	839
Intangible assets	135	134
Held to maturity investments	-	457
Deferred tax	204	-
Total non-current assets	1,267	1,430
Current assets		
Investments available for sale	38,792	40,169
Investments at fair value through profit or loss	-	9,839
Deposits with banks	-	-
Receivables from insurance operations	5,212	5,331
Other receivables	421	563
Cash and cash equivalents	12,853	2,919
Total current assets	57,278	58,821
Total assets	58,545	60,251
Equity and liabilities		
Equity		
Share capital	37,500	37,500
Retained earnings and reserves	1,749	2,501
Other reserves	3,590	4,363
Profit for the year	478	(752)
Total equity	43,317	43,612
Technical provisions		
Gross technical provisions	18,522	18,211
Technical provisions, reinsurer's share	(8,373)	(8,163)
	10,149	10,048
Current liabilities		
Liabilities from insurance operations	1,521	3,291
Other liabilities	3,558	3,300
Total liabilities	5,079	6,591
Total equity and liabilities	58,545	60,251

Appendix - Financial Performance of the HKO Group

Statement of Cash Flows

for the period 1 January – 31 March

(All amounts are expressed in HRK thousand)

	Mar 31, 2020 HRK '000	Mar 31, 2019 HRK '000
Operating activities		
Profit before income tax	706	332
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>		
Depreciation	90	9
Impairment gain/loss and provisions	11	(39)
Income tax	-	-
Accrued interest	187	149
<i>Operating profit before working capital changes</i>	<i>994</i>	<i>451</i>
Changes in operating assets and liabilities:		
Net decrease in deposits with other banks	-	-
Net realized (gain)/loss on assets available for sale	279	-
Decrease of discount in assets available for sale and assets held to maturity	41	51
Net gain on financial assets at fair value through profit or loss	70	(4)
Premium receivables	97	183
Net decrease/(increase) in other assets	168	(76)
Net decrease of assets and liabilities from insurance operations	(1,771)	(65)
Net increase in technical provisions	101	261
Net increase in other liabilities	78	161
Net cash provided/(used in) operating activities	57	962
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	9,747	-
Net purchase of assets available for sale	(3,044)	-
Net sale of assets available for sale	3,346	-
Purchase of assets held to maturity	-	-
Collection of assets held to maturity when due	448	-
Net purchase of property, plant and equipment and intangible assets	(180)	(213)
Net cash (used in)/provided investment activities	10,317	(213)
Effect of foreign currency to cash and cash equivalents		
Net foreign exchange	(425)	(36)
Net effect	(425)	(36)
Net (decrease)/increase in cash and cash equivalents	9,949	713
Balance as of 1 January	2,924	3,363
Net (decrease)/increase in cash	9,949	713
Balance as of 31 March	12,873	4,076

Appendix - Financial Performance of the HKO Group
Statement of Changes in Equity
for the period 1 January – 31 March

(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 2019	37,500	2,237	3,049	481	43,267	43,267
Profit for the period	-	-	-	322	322	322
Other comprehensive income	-	-	621	-	621	621
Total comprehensive income	-	-	621	322	943	943
Transfer of profit 2018 to retained earnings		481	-	(481)	-	-
Other adjustments	-	(482)	569	-	87	87
Balance as of 31 March 2019	37,500	2,236	4,239	322	44,297	44,297
Balance as of 1 January 2020	37,500	2,501	4,363	(752)	43,612	43,612
Profit for the period	-	-	-	478	478	478
Other comprehensive income	-	-	(773)	-	(773)	(773)
Total comprehensive income	-	-	(773)	478	(295)	(295)
Transfer of profit 2019 to retained earnings	-	(752)	-	752	-	-
Balance as of 31 March 2020	37,500	1,749	3,590	478	43,317	43,317