



**ANNUAL REPORT
OF THE CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT GROUP
FOR 2020**

Zagreb, March 2021

CONTENTS

| | |
|--|----|
| STATEMENT OF PERSONS RESPONSIBLE FOR THE PREPARATION OF THE ANNUAL REPORT..... | 3 |
| MANAGEMENT REPORT FOR 2020..... | 4 |
| STATEMENT ON THE CODE OF CORPORATE GOVERNANCE APPLICATION | 7 |
| DESCRIPTION OF OPERATIONS OF HBOR GROUP IN 2020..... | 11 |
| OPERATIONS OF CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT | 11 |
| COVID-19 MEASURES..... | 13 |
| MORATORIUM AND RESCHEDULING OF UP TO 16 MONTHS | 13 |
| NEW LOAN PROGRAMMES – INTEREST RATES FROM 0 PERCENT ON HBOR'S SOURCES | 15 |
| NEW INSURANCE PROGRAMMES – GUARANTEES AND INSURANCE OF LIQUIDITY LOANS | 17 |
| EU PROGRAMMES AND INITIATIVES | 18 |
| FINANCIAL INSTRUMENTS | 18 |
| ELENA PROGRAMME | 19 |
| DEVELOPMENT OF VENTURE CAPITAL AND PRIVATE EQUITY MARKET | 19 |
| FRC2 CROATIA PARTNERS SCSP (ESIF VENTURE CAPITAL FUND)..... | 20 |
| CROGIP..... | 20 |
| THE THREE SEAS INITIATIVE INVESTMENT FUND | 21 |
| EIF-NPI EQUITY PLATFORM..... | 21 |
| OTHERS | 22 |
| EXPORT CREDIT INSURANCE | 24 |
| RISK MANAGEMENT | 29 |
| INTERNAL AUDIT | 34 |
| COMPLIANCE MONITORING FUNCTION | 34 |
| HUMAN RESOURCES | 34 |
| OTHER ACTIVITIES | 36 |
| OPERATIONS OF HRVATSKO KREDITNO OSIGURANJE GROUP | 40 |
| HRVATSKO KREDITNO OSIGURANJE D.D. AND POSLOVNI INFO SERVIS D.O.O..... | 40 |
| PRINCIPLES OF FINANCIAL REPORTING | 44 |
| OVERVIEW OF FINANCIAL PERFORMANCE OF GROUP | 45 |
| 2020 ANNUAL FINANCIAL STATEMENTS | 60 |

STATEMENT OF PERSONS RESPONSIBLE FOR THE PREPARATION OF THE ANNUAL REPORT

To the best of our knowledge the 2020 Annual Report contains a truthful development of events and business results as well as the position of the Croatian Bank for Reconstruction and Development and the Group and the description of the most significant risks and contingencies the Croatian Bank for Reconstruction and Development and the Group are exposed to.

President of the Management Board



Tamara Perko, MSc

Member of the Management Board



Hrvoje Čuvalo, MSc



Zagreb, 25 March 2021

MANAGEMENT REPORT FOR 2020

The Annual Report includes the summary of financial information, description of operations and audited Annual Financial Statements with the Independent auditor's report for the year ended 31 December 2020. Audited Financial Statements are shown for the Croatian Bank for Reconstruction and Development Group and the Croatian Bank for Reconstruction and Development.

Legal status

The Annual Report includes the annual financial statements prepared in accordance with the International Financial Reporting Standards and the Accounting Act and audited in accordance with the International Standards on Auditing. The compliance of the Annual Report with the Annual Financial Statements has been confirmed by auditors through the implementation of procedure required by the Accounting Act.

Establishment

Croatian Bank for Reconstruction and Development was established on 12 June 1992 by the Act on Hrvatska kreditna banka za obnovu (HKBO). The Bank was renamed Hrvatska banka za obnovu i razvitak (Croatian Bank for Reconstruction and Development) by changes and amendments to the above Act in December 1995. In December 2006, the Croatian Parliament passed a new Act on HBOR, which came into force on 28 December 2006. On 15 February 2013, the Croatian Parliament passed the Act on Amendments to the HBOR Act, whereby the Supervisory Board of HBOR was amended and increased by one member – the Minister of Regional Development and EU Funds, and now consists of ten members.

HBOR Group

Croatian Bank for Reconstruction and Development (HBOR or the Bank) is the parent company of the HBOR group that was formed in 2010. The HBOR Group consists of the parent company, Hrvatsko kreditno osiguranje d.d. (HKO) and Poslovni info servis d.o.o. (PIS).

| NAME | ROLE WITHIN THE GROUP | % OF PARTICIPATION | BUSINESS ACTIVITIES |
|--|---|--------------------|--|
| Hrvatsko kreditno osiguranje d.d. | Subsidiary company, direct equity participation | 100% HBOR | Insurance for company's foreign and domestic short-term receivables, regarding shipments of goods and services |
| Poslovni info servis d.o.o. | Subsidiary company, indirect equity participation | 100% HKO | Providing analysis, credit risk assessment and information on creditworthiness |

Breakdown of the most significant financial information for HBOR, in HRK million

| | 2016 | 2017 | 2018 | 2019 | 2020 |
|----------------------------|-----------|-----------|-----------|-----------|-----------|
| Total assets | 27,374.92 | 28,055.80 | 27,198.93 | 26,446.49 | 28,680.36 |
| Gross loans | 26,343.12 | 26,332.99 | 26,243.12 | 26,571.11 | 27,197.29 |
| Total equity | 10,037.98 | 10,268.83 | 10,054.01 | 10,267.10 | 10,354.62 |
| Total income | 924.00 | 919.36 | 791.25 | 702.69 | 657.97 |
| Total expense | (610.47) | (758.58) | (586.92) | (547.64) | (578.63) |
| Profit | 313.53 | 160.78 | 204.33 | 155.05 | 79.34 |
| Interest income | 870.34 | 866.20 | 731.71 | 664.59 | 621.34 |
| Interest expense | (452.67) | (390.46) | (356.07) | (311.56) | (244.19) |
| Net interest income | 417.67 | 475.74 | 375.64 | 353.03 | 377.15 |

Credit rating as at 31 December 2020

BBB- by Standard & Poor's

Regional offices

Regional office for Dalmatia

Regional office for Istria

Regional office for Lika

Regional office for Primorje and Gorski kotar

Regional office for northwestern Croatia

Regional office for Slavonia and Baranja

Number of employees

On 31 December 2020, there were 365 employees in HBOR.

On 31 December 2020, there were 386 employees in HBOR Group.

Exchange rate

For the purpose of converting amounts in foreign currencies into HRK, the following middle exchange rates of the Croatian National Bank have been applied:

| | | |
|------------------|----------------------|----------------------|
| 31 December 2020 | EUR 1 = HRK 7.536898 | USD 1 = HRK 6.139039 |
| 31 December 2019 | EUR 1 = HRK 7.417575 | USD 1 = HRK 6.469192 |

STATEMENT ON THE CODE OF CORPORATE GOVERNANCE APPLICATION

Croatian Bank for Reconstruction and Development (HBOR)

HBOR applies HBOR's Code of Corporate Governance (hereinafter: the Code) adopted by the Management Board and the Supervisory Board and published on HBOR's web pages.

The Code contains the basic principles determined by the Decision on Passing the Code of Corporate Governance in Companies with Shares or Participations owned by the Republic of Croatia (Official Gazette of the Republic of Croatia No. 112/2010) (hereinafter: the Decision) and the principles determined in The European Banking Authority Guidelines on Internal Governance GL 44, September/2011 (hereinafter: the Guidelines).

The principles stated in the Guidelines are implemented by HBOR voluntarily to a degree to which they are applicable due to the fact that the Guidelines relate to credit institutions and are not fully applicable to HBOR as a special financial institution.

Compliance of operations with laws and regulations and adherence to internal rules are the basis of responsible corporate governance and a necessary condition for sustainable business success. HBOR continuously monitors legislation and best practices in the field of corporate governance and integrates corporate governance principles in its operations pursuant to sound banking practices.

The Code of Corporate Governance establishes the standards of corporate governance and the transparency and upgrading of HBOR's operations for effective and responsible management of public capital, as well as the activities of special social significance for the development of the Croatian economy. In order to achieve the standard of corporate governance, HBOR's Code describes the relationships with governing bodies and stakeholders, as well as the adopted business principles aimed at mitigating the risks of operating in adverse market conditions.

The Code of Conduct of HBOR prescribes specific values and rules for the prevention of corruption and assurance of professional conduct, and provides for the possibility of filing a report on the grounds of violation of the Code. The report form, the e-mail address for filing reports and the description of the filing are available on HBOR's website. The person in charge of compliance monitoring reports annually on reports filed and proceedings initiated in respect of reports filed on the grounds of violation of the Code of Conduct.

In accordance with the principles of public business, in the reporting period, the financial statements of the Bank and the Group were published on the websites of HBOR and the Luxembourg Stock Exchange. HBOR's annual financial statements on an unconsolidated and consolidated basis are confirmed by the Supervisory Board and submitted to the Croatian Parliament for approval. The assessment of HBOR's rating was implemented by the international independent rating agency Standard & Poor's. Pursuant to the Freedom of Information Act, HBOR submits a report on the implementation of this act to the Public Relations Commissioner.

In the reporting period, the duties, responsibilities and powers of the members of the Management Board and the Supervisory Board were regulated by the Act on HBOR (Official Gazette of the Republic of Croatia, No. 138/06) and by the Act on Amendments to the Act on HBOR (Official Gazette of the Republic of Croatia, No. 25/13) and further elaborated in the By-laws of HBOR. The Management Board and the Supervisory Board successfully co-operate through open discussions; the timely submission of thorough written reports to the Supervisory Board represents the basis for this co-operation. The Act on HBOR, the By-laws of HBOR and decisions made by the Supervisory Board determine the activities that HBOR may perform only with the prior consent of the Supervisory Board.

The **Supervisory Board** determines the principles of operating policy and strategy, supervises the business activities of the Bank, adopts HBOR's lending policies, adopts the Annual Financial Statements, and examines the Internal Audit reports and reports drafted by external independent auditors and by the State Audit Office. The Supervisory Board also monitors and controls the legality of the business activities of the Management Board and appoints and dismisses the President and the members of the Management Board. According to the Act, the Supervisory Board consists of ten members: six ministers in the Government of the Republic of Croatia, three Members of Parliament, and the President of the Croatian Chamber of Economy.

In 2020, the members of the Supervisory Board were as follows:

- Zdravko Marić, DSc, Minister of Finance and Deputy Prime Minister of the Republic of Croatia, President of the Supervisory Board,
- Darko Horvat, Minister of the Economy, Entrepreneurship and Trade, Vice President of the Supervisory Board (until 20 August 2020),
- Tomislav Čorić, DSc, Minister of the Economy and Sustainable Development, Vice President of the Supervisory Board (since 20 August 2020)
- Predrag Štromar, Deputy Prime Minister of the Republic of Croatia and Minister of Construction and Physical Planning (until 20 August 2020),
- Darko Horvat, Minister of Physical Planning, Construction and State Assets (since 20 August 2020),
- Marko Pavić, MSc, Minister of Regional Development and EU Funds (until 20 August 2020),
- Nataša Tramišak, Minister of Regional Development and EU Funds (since 20 August 2020),
- Gari Cappelli, Minister of Tourism (until 20 August 2020),
- Nikolina Brnjac, Minister of Tourism and Sport (since 20 August 2020),
- Marija Vučković, MSc, Minister of Agriculture,
- Luka Burilović, President of the Croatian Chamber of the Economy,
- Božica Makar, Member of the Croatian Parliament (until 22 July 2020),
- Grozdana Perić, Chairman of the Finance and Central Budget Committee of the Croatian Parliament (until 22 July 2020),
- Saša Đujić, Member of the Croatian Parliament (until 22 July 2020),
- Žarko Tušek, Member of the Croatian Parliament (since 16 October 2020),
- Predrag Štromar, Member of the Croatian Parliament (since 16 October 2020),
- Siniša Hajdaš Dončić, DSc, Member of the Croatian Parliament (since 16 October 2020).

The Management Board represents HBOR, conducts HBOR's business and administers its assets, and is obliged and authorised to undertake all actions and pass all resolutions it considers necessary for the legal and successful conduct of business. The powers of the Management Board also include adopting normative acts that determine the manner of operations and the internal organisation of HBOR, adopting loan programmes, making individual loan approval decisions and decisions on other

financial transactions, making decisions on the appointment and dismissal of employees with special powers, making decisions on the rights and obligations of employees and reporting to the Supervisory Board.

Members of the Management Board of HBOR in 2020:

- Tamara Perko, MSc, President of the Management Board,
- Hrvoje Čuvalo, MSc, Member of the Management Board.

On the basis of HBOR's Code of Corporate Governance and the Audit Act, the Audit Committee of HBOR has been established pursuant to a decision of the Supervisory Board. The Audit Committee is comprised of three members, one of whom is appointed from among the members of the Supervisory Board of HBOR and the other two, at least one of whom must be an independent member, are appointed by the Supervisory Board. The President is appointed by the Supervisory Board from among the independent members of the Audit Committee.

In 2020, members of the **Audit Committee** of HBOR were:

until 6 November 2020:

- Prof.DSc. Lajoš Žager, Full Professor, Department of Accounting, Faculty of Economics and Business of the University of Zagreb, Chairman of the Audit Committee,
- Grozdana Perić, Chairman of the Finance and Central Budget Committee of the Croatian Parliament, Deputy Chairman of the Audit Committee,
- Aurora Volarević, Auditor General in Infobip Ltd, member of the Audit Committee;

since 6 November 2020:

- Prof.DSc. Lajoš Žager, Full Professor, Department of Accounting, Faculty of Economics and Business of the University of Zagreb, Chairman of the Audit Committee,
- Aurora Volarević, Management Board and Vice President Corporate Affairs in Infobip Ltd, Deputy Chairman of the Audit Committee,
- Predrag Štromar, Chairman of the Physical Planning and Construction Committee of the Croatian Parliament, member of the Audit Committee.

In order to ensure as effective and as high-quality risk management as possible and reduce the risks to the lowest level possible, the following committees operate under the Management Board: the Assets and Liabilities Management Committee, the Credit Risk Evaluation and Measurement Committee, the Information System Management Committee and the Business Change Management Committee.

The internal control system of HBOR is organised through independent organisational units as follows:

- Risk Management conducts the identification, assessment, measurement, supervision and control of all risks that HBOR is exposed or may be exposed to within the framework of its operations and reports on them to the bodies in charge,

- Internal Audit verifies the adequacy of the risk management procedures and the internal control system, including risk control function and compliance function, and implements the internal policies and procedures, as well as activities related to the prevention of money laundering,
- Compliance function organizes, coordinates and directs the activities concerning compliance at the level of HBOR, advises on matters of compliance, controls measures taken to minimize compliance risk, incorporates information on compliance monitoring, identifies and assesses the risks of compliance and provides regular reports. The main tasks of the compliance function are to limit the non-compliance risk and its possible negative effects, ensure compliance of all internal documents and business processes with the relevant regulations and promote the principles of ethical business.

Hrvatsko kreditno osiguranje d.d. (HKO, the Company)

The internal control system of Hrvatsko kreditno osiguranje d.d. is organised through the following independent functions:

- compliance function,
- risk management function,
- internal audit function and
- actuarial function.

HKO has established an adequate internal control system on the basis of the internal regulation, the Ordinance on the Internal Control System, thus increasing the probability of timely detecting fraud and contributing to the reduction of unjustified costs, the reduction of abuse and error, the prevention of inappropriate acts and the reduction of risks related to compliance with the legislative framework. In proportion to its size, to the type, scope and complexity of operations and in accordance with its risk profile, the Company establishes permanent and effective controls that are independent from the business processes and activities in which risks arise and which they monitor and supervise.

Legal status, organisation and management of HKO as well as other issues important for the operations of the Company are determined by the Statutes of the Company pursuant to the provisions of the Companies Act and the Insurance Act.

The Company management bodies are the Management Board, the Supervisory Board and the Shareholders' Meeting. HKO is managed by the two-member Management Board that makes its decision in accordance with the Rules of Procedure for the Management Board. All decisions are made by following the "double check principle" ("four eyes principle") supported by the suitable system of authorisation.

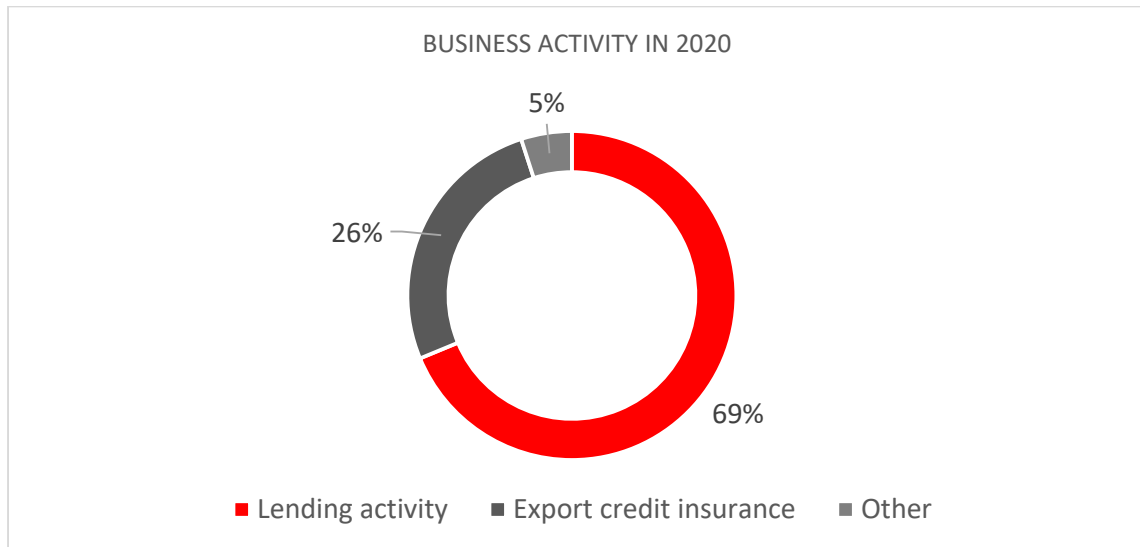
HKO has not adopted the Code of Corporate Governance, however, to the extent adequate to the size and development status of the Company, it voluntarily applies the principles of corporate governance code on its operations that have been prepared by the Croatian Financial Services Supervisory Agency (HANFA) and Zagrebačka burza d.d. (Zagreb Stock Exchange).

This Statement is considered to be part of the Annual Report of the HBOR Group for the period 1 January to 31 December 2020.

DESCRIPTION OF OPERATIONS OF HBOR GROUP IN 2020

OPERATIONS OF CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

During 2020, HBOR supported 1,809 projects through its activities with an amount of almost HRK 8 billion, representing an increase of 13 percent compared to 2019.

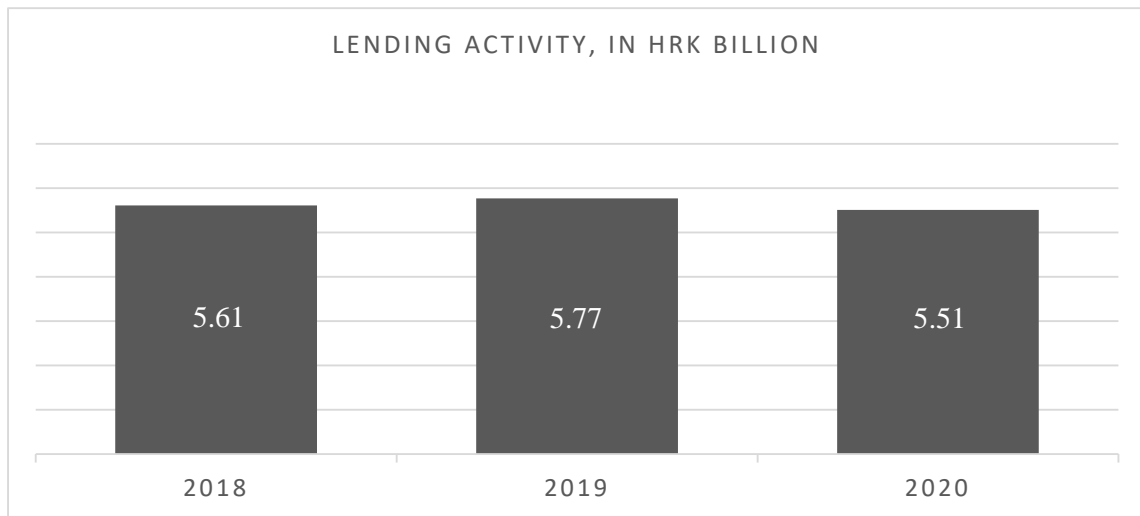


HBOR's operations in 2020 were marked by activities related to the mitigation of negative consequences of the COVID-19 pandemic on the operations of Croatian business entities. Already at the end of March, the first COVID-19 Measures for preserving the liquidity of companies and jobs were adopted. Under COVID-19 Measures, it was made possible for entrepreneurs to use a moratorium and to reschedule their existing obligations. Also, new favourable loans with an interest rate from 0 percent from HBOR's sources were made available, both in cooperation with commercial banks and directly. In order to encourage banks to extend working capital loans to entrepreneurs, HBOR introduced new manners of securing loans and issuing of guarantees, through which it covers up to 90 percent of the risk of loan repayment.

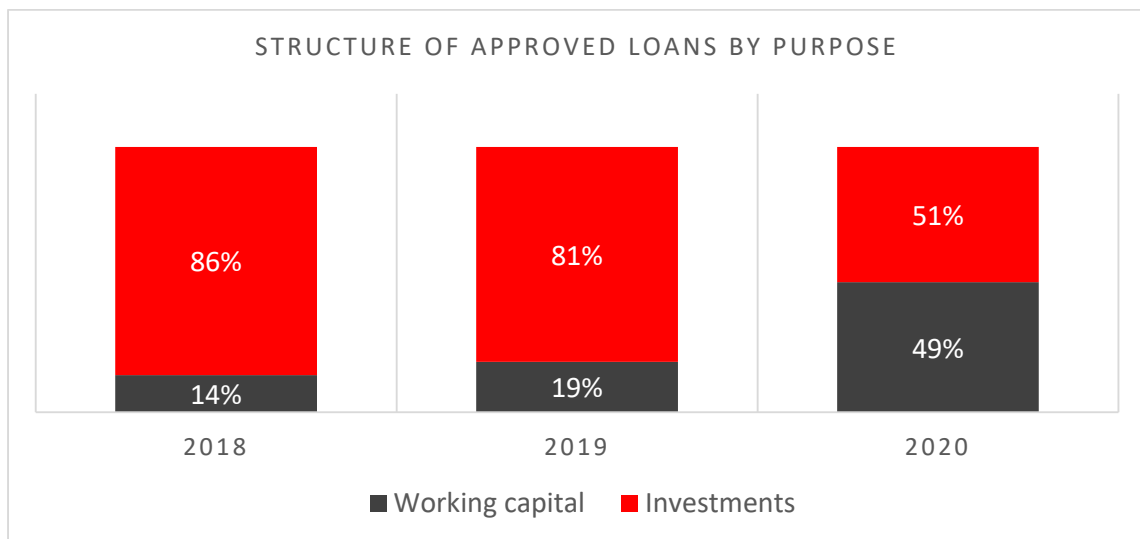
In order to be able to implement these measures, due to more favourable conditions for granting aid to entrepreneurs compared to the standard ones and significantly more favourable insurance premiums than the market ones, HBOR had to obtain a consent of the European Commission for new liquidity loans and a new portfolio insurance scheme. HBOR was among the first in the EU that notified these two support programmes and already at the beginning of April obtained approvals of the European Commission.

In addition to approvals under the COVID-19 Measures, HBOR continued to implement all of its existing loan programmes for financing investments and working capital, financial instruments and export credit insurance programmes and to encourage the development of private equity market, as well as other activities.

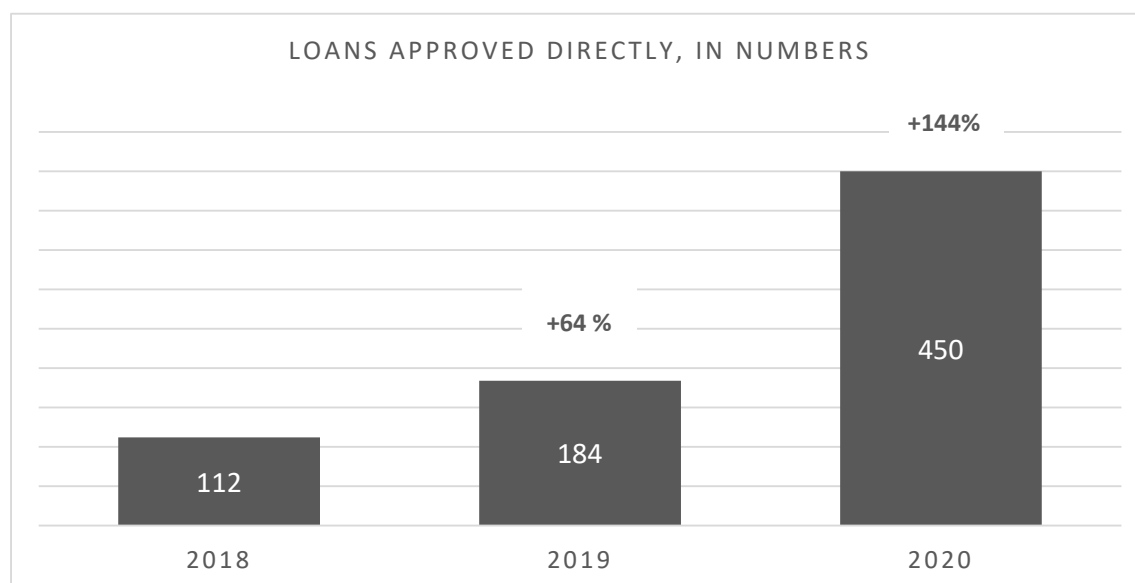
The major part of approvals related to lending activity: in the reporting year, 1,328 projects were supported with an amount of HRK 5.51 billion.



Taking into account that in the circumstances caused by the pandemic, 2020 was marked by the use of a moratorium and approval of loans to maintain the liquidity of companies, the share of loans granted for investments in 2020 was lower than in previous years. However, in these circumstances, of the total number of loans approved, more than 50 percent were intended for investments. The share of approved loans for investments is important, because these investments are focused on the development of a particular area, increase in entrepreneurs' competitiveness, investments in new technologies and production, as well as new employment.



Due to the implementation of COVID-19 Measures, within which HBOR implemented certain programmes directly, the number of directly approved loans increased by almost 2.5 times compared to 2019, or 4 times compared to 2018, where the number of employees remained at the same level.



Most of HBOR's borrowers in 2020 were again small and medium-sized enterprises, to which 1,168 loans were approved, i.e. 88 percent of the total number of approved loans in the amount of HRK 1.57 billion.

In 2020, Croatian exporters were backed by HBOR in more than 800 projects with the total amount of almost HRK 4.70 billion: under all loan programmes, exporters were approved 362 loans totalling HRK 2.44 billion, through export credit insurance policies 425 of exporters' projects were insured totalling almost HRK 2.10 billion and 18 bank guarantees at the request of exporters in the total amount of HRK 154.00 million were issued. Further facilitating of financing conditions for Croatian exporters was one of the key focuses in the development of COVID-19 Measures.

COVID-19 MEASURES

In addition to the possibility of using a moratorium and rescheduling, during 2020, within the framework of COVID-19 Measures, HBOR introduced new working capital loan programmes that are approved in cooperation either with commercial banks or directly. Also, in order to encourage banks to extend loans to entrepreneurs, new manners of loan insurance were introduced, by which HBOR covers up to 90 percent of risk of loan repayment.

MORATORIUM AND RESCHEDULING OF UP TO 16 MONTHS

At the end of March, HBOR made it possible for all clients to whom a direct loan had been approved or a guarantee issued to use a moratorium until 30 June 2020. After the initially approved moratorium, an additional or new moratorium was made possible until:

- 30 September 2020 – for all clients of HBOR (total duration of moratorium - up to 7 months);
- 31 December 2020 – for all clients of HBOR who have a positive COVID score calculated by the Financial Agency (total duration of moratorium – up to 10 months);
- 30 June 2021 – for all clients of HBOR active in the tourism industry (total duration of moratorium – up to 16 months).

Beneficiaries of direct loans were notified of the terms and conditions of the moratorium and of the consent form to be submitted to HBOR. Clients who were granted an HBOR loan through a commercial bank or under the risk-sharing model, as well as those who used HBOR's financing via leasing companies, had to submit a request for moratorium to a commercial bank or leasing company, respectively.

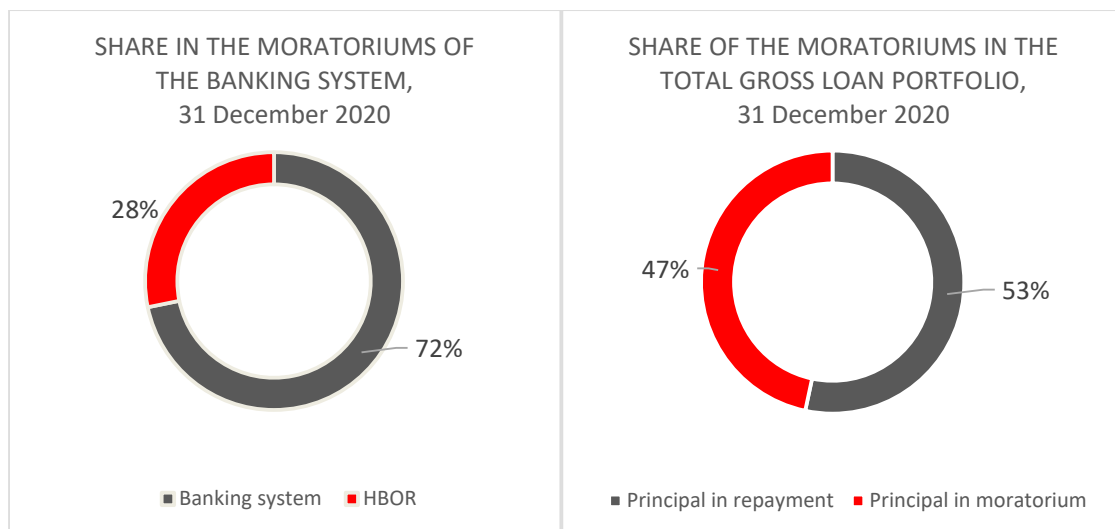
During the approved moratorium, HBOR charged neither regular interest nor fees to its clients.

Clients were allowed to use the moratorium in the manner described, despite the fact that HBOR was still obliged to regularly settle its obligations to creditors without the possibility of using a moratorium.

In addition to the moratorium, the rescheduling of existing loan obligations was made possible for all beneficiaries of HBOR's loans who were not able to carry out their planned activities due to the COVID-19 pandemic, regardless of whether the loan was approved directly, through commercial banks or leasing companies. For rescheduling of up to 6 months, entrepreneurs were exempted from paying the usual fees, and entrepreneurs from tourism activities were allowed to approve rescheduling of up to 16 months, also without paying fees.

Results:

The possibility of using the moratorium was accepted by client for more than 1,600 approved loans, and a grace period was introduced for the loan principal in the total amount exceeding HRK 12.80 billion. The amount of the principal put into a grace period represents almost a half of the total gross loan portfolio of HBOR, which on 31 December 2020 amounted to HRK 27.43 billion. The amount of the principal put into a grace period by HBOR represents almost 30 percent of the total principal of entrepreneurs' obligations put into a grace period in the banking system.



NEW LOAN PROGRAMMES – INTEREST RATES FROM 0 PERCENT ON HBOR'S SOURCES

Within the framework of COVID-19 Measures, favourable HBOR funds for liquidity financing were also made available to entrepreneurs. Loan programmes under the COVID-19 Measures were implemented in cooperation with commercial banks or directly for entrepreneurs from certain activities. As already stated, in 2020, HBOR approved several times larger amount of direct loans than in previous years, and the majority of these loans were approved under the COVID-19 Measures. However, taking into account HBOR's limited capacities, cooperation with commercial banks was very important in this period, because the banks have a significantly larger number of employees, better and more detailed knowledge of clients and their operations. Also, through a network of bank branches, greater availability of HBOR funds and faster loan processing is ensured. Under the programmes within the COVID-19 Measures, funds from HBOR sources were approved at an interest rate from 0 percent with no usual fees charged.

WORKING CAPITAL COVID – 19 MEASURE – Lending is implemented under the risk-sharing model with commercial banks or directly for large loan amounts. Loans are approved with a repayment period of up to 5 years, including the possibility of a grace period of up to 1 year, at an interest rate from 0 percent on HBOR's share in the loan (interest rate depends on state aid regulations) for the first three years of loan repayment. During 2020, the programme was implemented through 15 banks, and directly for loan amounts exceeding HRK 37 million, i.e. HRK 10 million for entrepreneurs from the tourism industry and those generating at least 10% of income from exports or indirect exports. At the beginning of 2021, the programme was amended in a way that direct approval was provided for loan amounts of more than HRK 1.5 million for entrepreneurs in tourism activities and those generating at least 10% of income from exports or indirect exports.

WORKING CAPITAL FOR ENTREPRENEURS IN WOOD PROCESSING AND FURNITURE PRODUCTION INDUSTRY – Lending is implemented under the risk-sharing model with commercial banks. Loans are approved with a repayment period of up to 5 years, including the possibility of a grace period of up to 1 year, at an interest rate from 0 percent for HBOR's share in the loan (interest rate depends on state aid regulations) for the entire loan repayment period. As one of security instruments, entrepreneurs can use HBOR's insurance policy, where the Ministry of Agriculture co-finances the costs of the insurance premium up to the amount of available *de minimis* aid. In 2020, the programme was implemented through 15 banks.

WORKING CAPITAL THROUGH FRAMEWORK LOANS TO BANKS – More than HRK 1.2 billion was made available to entrepreneurs for new working capital loans that banks, thanks to HBOR's sources, approve at an interest rate reduced by 0.75 percentage points. During 2020, these funds were made available to entrepreneurs through 8 commercial banks.

WORKING CAPITAL THROUGH FRAMEWORK LOANS TO BANKS WITH HAMAG-BICRO GUARANTEES – Loans are approved under the risk-sharing model by using an individual ESIF guarantee of HAMAG-BICRO for working capital in the amount of at least 50 percent of the total loan amount. Owing to the use of the guarantee and HBOR's sources, the interest rate for entrepreneurs cannot exceed 2 percent. During 2020, these funds were made available to entrepreneurs through 5 commercial banks.

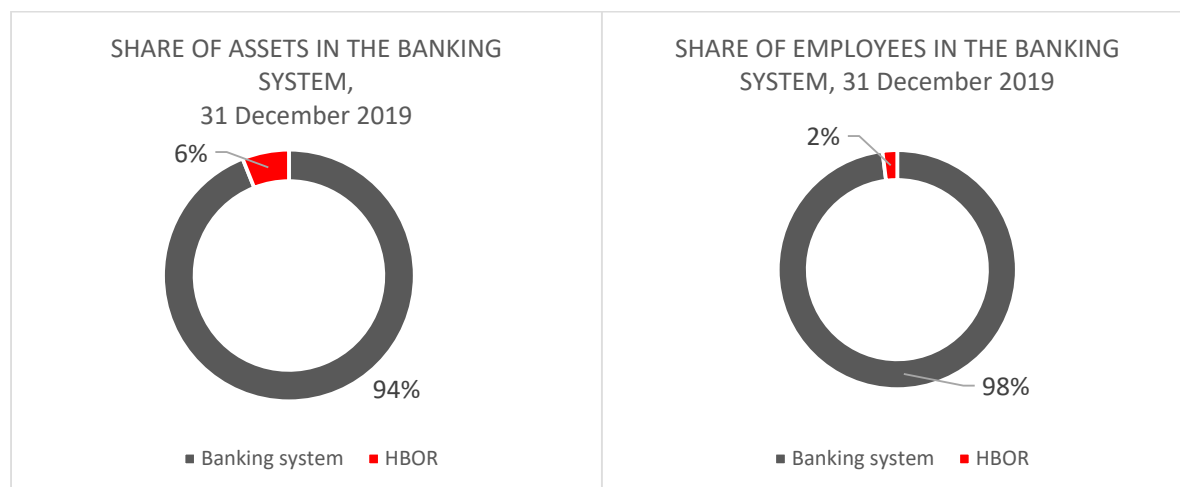
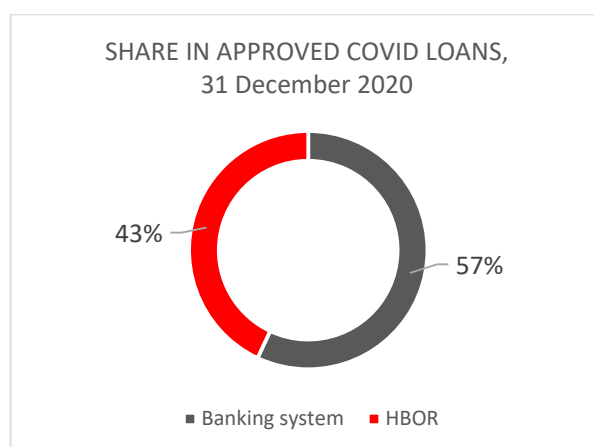
WORKING CAPITAL FOR RURAL DEVELOPMENT – Loans are approved directly to eligible beneficiaries: farmers and entities doing business in the agricultural products processing industry as well as entities doing business in the forestry sector. Funds are approved without usual banking fees charged, at an interest rate of 0.5 percent, with only bills of exchange and debentures as collateral and the repayment period of up to 5 years. The programme was introduced by the reallocation of part of funds of the Investment Loans for Rural Development financial instrument.

WORKING CAPITAL FOR SMALL AND MEDIUM-SIZED COMPANIES IN THE TOURISM INDUSTRY –

Entrepreneurs in the tourism sector are provided with direct loans with a repayment period of up to 5 years and a grace period of up to one year. Thanks to the subsidy of the Ministry of Tourism, interest rate is 0 percent in the first 3 years of the repayment period, and in the fourth and fifth year of repayment, interest rate is up to 1.5 percent (the interest rate depends on state aid regulations). Since in many cases, such entrepreneurs do not have sufficient collateral in the form of real estate and moveable property, loan approval with HBOR insurance policies or a HAMAG-BICRO guarantee is made possible as an additional benefit. Due to the great interest of entrepreneurs and the limited amount of subsidies, applications for these loans were received until 5 June 2020.

Results

By the end of 2020, under loan programmes within the framework of COVID – 19 Measures, HBOR approved almost HRK 1.30 billion in loans. Taking into account that under COVID-19 Measures, all banks in the Republic of Croatia granted a total of slightly more than HRK 1.7 billion in loans to entrepreneurs, approved HBOR's loans make for 43 percent of the total amount of loans granted by all banks to entrepreneurs under COVID-19 Measures. This amount of approvals is particularly important if we take into account that HBOR employs only 2 percent of the total number of employees in the Croatian banking system, in which HBOR's assets account for 6 percent of total assets.



NEW INSURANCE PROGRAMMES – GUARANTEES AND INSURANCE OF LIQUIDITY LOANS

In order to encourage commercial banks to grant new liquidity loans to entrepreneurs, under the COVID-19 Measures, HBOR introduced a new programme for the insurance of liquidity loans for exporters, adjusted the current insurance programmes to the needs of individual sectors due to the COVID-19 pandemic, and introduced a guarantee programme for the maritime, transport and transport infrastructure implemented by HBOR for large entrepreneurs. At the end of 2020, the Programme of Subsidising the Insurance Premium was introduced.

PROGRAMME FOR THE PORTFOLIO INSURANCE OF LIQUIDITY LOANS FOR EXPORTERS – COVID-19

MEASURE – The programme was introduced in April 2020 to encourage banks to approve more quickly and easily new funds in order to preserve the liquidity of exporters and indirect exporters from all sectors of the economy (including the tourism sector). Exporters were defined as entrepreneurs having generated at least 20 percent of operating income from exports in the past financial year, and indirect exporters as entrepreneurs having generated at least 40 percent of income from sales to exporters and their suppliers. Loans approved for exporters' liquidity according to the previously agreed criteria are included in the secured portfolio by banks involved in cooperation under this programme, where HBOR covered 50 percent of the repayment risk. At the end of the year, after the consent from the European Commission has been obtained, the coverage was increased to 90 percent of the loan principal amount, the obligatory condition of export revenues reduced to 10 percent, and for indirect exporters to 20 percent of income generated from sales to exporters and their suppliers. In 2020, 15 banks were involved in cooperation under this programme.

PROGRAMME FOR THE INDIVIDUAL INSURANCE POLICY OF LIQUIDITY LOANS FOR EXPORTERS -

In November 2020, HBOR also introduced the Programme for the Individual insurance policy of liquidity loans for exporters that cannot be insured under the Programme for the Portfolio Insurance of Liquidity Loans for Exporters.

PROGRAMME OF SUBSIDISING THE INSURANCE PREMIUM – COVID-19 MEASURE – In order to reduce the cost of financing for entrepreneurs, at the end of 2020, the Programme of Subsidising the Insurance Premium was introduced. Subsidising of the entire or a part of the premium cost is provided to entrepreneurs that:

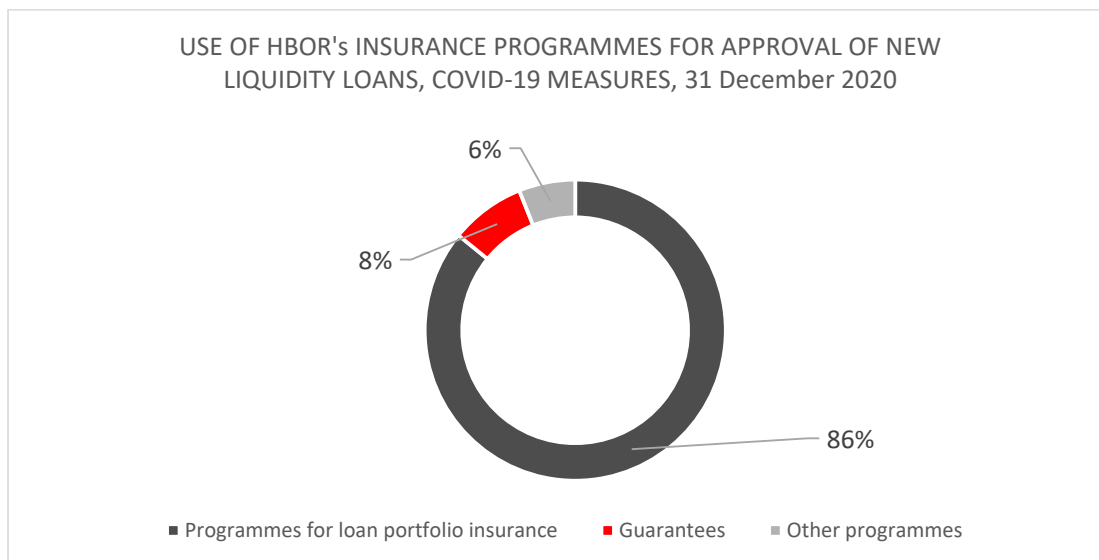
- in the period from 31 March 2020 until the submission of an application for subsidy, have not reduced the number of employees by more than 20 percent if the borrower is large entrepreneur, or more than 50 percent if the borrower is a small or medium entrepreneur,
- have no outstanding liabilities based on public levies.

PROGRAMME FOR THE AWARD OF STATE AID TO SUPPORT THE MARITIME, TRANSPORT, TRANSPORT INFRASTRUCTURE AND RELATED SECTORS IN THE CURRENT COVID-19 OUTBREAK 19 –

In cooperation with the Ministry of the Sea, Transport and Infrastructure, HBOR implements the Programme for the Award of State Aid to Support the Maritime, Transport and Transport Infrastructure and Related Sectors In the Current COVID-19 Outbreak for large entrepreneurs in the form of issuing state guarantees covering up to 90 percent of the underlying loan principal of new liquidity loans. The programme provides easier access to finance, thus ensuring the sustainability of operations and mitigation of effects of the crisis caused by the COVID-19 pandemic.

Results

With the help of HBOR's liquidity loan insurance for exporters under COVID – 19 Measures, in 2020, banks granted HRK 1.24 billion In liquidity loans to entrepreneurs.



EU PROGRAMMES AND INITIATIVES

In 2020, HBOR actively monitored the development of new EU initiatives introduced in the context of the European Union's response to the COVID-19 pandemic, especially the initiatives where there was a possibility for HBOR's inclusion and contribution to the recovery of the Croatian economy. Great attention was paid to monitoring the negotiations regarding the EU Recovery Plan, where special emphasis was placed on HBOR's engagement in the Recovery and Resilience Facility and the negotiations on the Multiannual Financial Framework 2021-2027, especially on monitoring negotiations in the part relating to the Cohesion policy.

In addition, in response to the crisis caused by the COVID-19 pandemic, the European Investment Bank has launched a series of measures, and one of them is the establishment of the Pan-European Guarantee Fund (EGF). The Republic of Croatia expressed interest in joining the EGF and concluded a Contribution Agreement with the EIB. Further to this, in 2020, HBOR submitted an application for participation in two guarantee products within the EGF to the European Investment Bank and the European Investment Fund.

Additionally, HBOR actively observed developments at the EU level regarding a new InvestEU initiative and began preparations for its participation in it.

FINANCIAL INSTRUMENTS

In addition to the Financial instruments intended for the private and public sectors that are already being implemented, in order to mitigate the consequences of the COVID-19 pandemic HBOR has

implemented a new Financial instrument called Working Capital for Rural Development. The implementation of the Financial instruments for the private sector - ESIF Growth and Expansion Loans and Investment Loans for Rural Development and for the public sector - ESIF Loans for Energy Efficiency in Public Sector Buildings and ESIF Loans for Public Lighting was continued.

During 2020, 119 projects in the total amount of HRK 205 million were supported by HBOR through Financial instruments.

In the previous year, HBOR gained important knowledge about the entire process of development and implementation of Financial instruments and established valuable contacts with domestic and foreign stakeholders in the management and implementation of the EU funds. This ultimately enhances and facilitates the operational implementation of Financial instruments and other related programmes. In this way, HBOR became a centre of competence for the development and implementation of Financial instruments.

Given the importance of using the European Structural and Investment Funds, at the end of 2020, HBOR joined the process of programming the cohesion policy for the financial framework 2021-2027 through its active participation in the membership of working groups covering the policy objectives of the European Union for the coming period.

ELENA PROGRAMME

At the end of 2019, HBOR signed an agreement with the EIB on the implementation of the ELENA programme. This enabled HBOR to use more than EUR 2 million in the form of grant for the financing of documentation (business plan, energy audit, main project etc.) and related consulting services for energy efficiency, renewable energy sources and public lighting projects in Croatia. This is a European Commission programme implemented by the European Investment Bank, funded by the HORIZON 2020 programme. In 2020, the consultants whose services will be paid from the ELENA programme funds were selected by HBOR through a public procurement procedure. Through the programme, services provided by the selected consultants are available to entrepreneurs and the public sector for the preparation of project documentation for energy efficiency investments. The ELENA programme has provided more than EUR 2 million in grants for this purpose. By the end of 2020, more than a third of this amount was used for the preparation of documentation for 36 projects, whose investment value is estimated at almost HRK 200 million.

DEVELOPMENT OF VENTURE CAPITAL AND PRIVATE EQUITY MARKET

A number of analysis show that Croatian micro, small, medium and mid-cap companies, particularly the innovative ones and those with a higher degree of risk (start-ups, fast-growing companies or companies in propulsive ICT industries) or those operating in sectors with lower rates of return, are faced with the challenge of finding adequate sources of finance due to poorly developed venture capital and private equity market as well as the domination of traditional sources of finance.

For this reason, HBOR has launched a number of initiatives to develop this market in order to provide adequate sources to help the growth of entrepreneurial activity. It is expected that due to the consequences of the pandemic, the need for funds for investments in private equity or quasi-equity will increase further, and that HBOR's activities will be focused on filling this market gap.

During 2020, two new funds were launched within the CROGIP programme and the preconditions for the start of operation of the third one were created. Also, more than 80 investments in start-ups were made through venture capital fund Fil Rouge Capital (FRC2), established in 2019 with HBOR's support.

FRC2 CROATIA PARTNERS SCSP (ESIF VENTURE CAPITAL FUND)

FRC2 Croatia Partners SCSp is a venture capital fund financed partially from the proceeds of ESIF Financial instruments through cooperation with the European Investment Fund (hereinafter: the EIF), and partially from the proceeds of private investors.

The company FRC2 GP S.à r.l. was selected by the EIF as the fund management company and in April 2019, the fund FRC2 Croatia Partners SCSp (FRC2 Fund) was established.

In June 2019, HBOR became one of the investors in the FRC2 Fund, but it does not participate in the selection of business entities in which the FRC2 Fund will invest.

The FRC2 Fund invests in companies in the Republic of Croatia in the earliest stages of development that have necessary innovation and desire to succeed.

The FRC2 Fund consists of two components:

- acceleration component intended to innovative start-ups that have only business ideas (Start-up school) or prototype (Accelerator) and
- venture capital component intended to companies that already operate, have initial buyers and that have already passed the initial phase of development.

From its establishment in June 2019 until the end of 2020, the FRC2 Fund reviewed more than 1,300 investment opportunities, 3 accelerator programmes have been completed and an amount of almost EUR 14.3 million has been put in 82 investments.

CROGIP

Within the framework of the EIF-NPI Equity Platform, in January 2019, the EIF and HBOR signed the agreement, by which the Croatian Growth Investment Programme (hereinafter: CROGIP) was launched. CROGIP is an initiative that stimulates capital investments in small and medium-sized companies as well as mid-cap companies in the total amount exceeding EUR 200 million.

The EIF and HBOR jointly invest (each committing EUR 40 million) into

- private equity funds managed by companies selected by the EIF, and
- co-investments with funds that already have an established co-operation with the EIF and positive references.

In addition to the overall objective of providing support to Croatian companies and creating new jobs through ensuring the availability of private equity/venture capital, the aim of CROGIP is to develop the market and institutional capacities for the financing through private equity/venture capital in the Republic of Croatia by supporting fund management companies that direct a significant portion of their investments to Croatian companies.

The EIF manages and deploys the CROGIP programme through fund investments and co-investments with funds and private investors at market conditions. The programme is not restricted to any particular sector.

The EIF enables investments in funds and co-investments to selected fund management companies with positive references in accordance with the criteria defined by HBOR in advance through CROGIP. In addition to the EIF's selection criteria, the funds must meet the following criterion in their investment strategy: at least 70 percent of total investments of a fund will be invested in companies that are established in Croatia and perform the majority of their business operations in Croatia and/or companies that will start their long-term operations in Croatia and employ a significant number of workers from Croatia.

According to the terms of the CROGIP initiative and its internal procedures, the EIF has selected three funds in which the money of the CROGIP initiative will be invested as follows: Adriatic Structured Equity Fund, Prosperus Growth Fund and Croatian Mezzanine Debt Fund.

Adriatic Structured Equity Fund and Prosperus Growth Fund started operating at the end of 2020, and it is expected that in 2021 the Croatian Mezzanine Debt Fund will start operating.

THE THREE SEAS INITIATIVE INVESTMENT FUND

The Three Seas Initiative, a platform for cooperation between 12 EU member states in the area of the three seas (the Adriatic, Baltic and Black Seas), was established to support joint cross-border strategic projects with an emphasis on energy, transport and digital connectivity in the region.

The Three Seas Initiative Investment Fund was created as a financial tool with the help of which capital is invested in the Initiative's projects (investments in private equity and quasi-equity). HBOR, as the development bank of the Republic of Croatia, was invited to participate in the structuring of the Fund. The Fund's investment goal is to use available funds for investment in infrastructure projects that contribute to security and diversity of energy supply, reduction of emissions and transport costs, economic, social and digital connectivity of the EU member states as well as the integration by reducing differences in infrastructure quality. In order to create a framework for cooperation between development banks on the Fund establishment, in 2018, 6 development financial institutions (from Poland, Romania, the Czech Republic, Slovakia, Latvia and Croatia) signed a non-binding Letter of Intent on the establishment of the Three Seas Initiative Investment Fund.

On 14 October 2020, the Government of the Republic of Croatia made a decision to invest in the Fund with the purpose of encouraging the realisation of joint projects in the area under the Initiative. By this Decision, HBOR is authorised to make an investment in the Fund in its own name and for the account of the Government of the Republic of Croatia in an amount of up to EUR 20 million, increased by fees and costs of joining and participating in the Fund.

HBOR joined the Fund in the first quarter of 2021.

EIF-NPI EQUITY PLATFORM

The European Commission, in co-operation with EIF and national promotional institutions (NPI) launched the NPI equity platform for the purpose of developing the market of investments in private equity funds. As one of the founding institutions, in September 2016, HBOR joined the creation of this platform and has been participating in the work of two platform bodies since then – the General Forum and Consultative Forum, the work of which is focused on exchange of experience and knowledge aimed at strengthening the private equity industry.

OTHERS

SPECIAL ADVANTAGES FOR ENTREPRENEURS IN INDIVIDUAL COUNTIES, MUNICIPALITIES AND CITIES

Interest rate subsidy

In 2020, HBOR continued to contribute to the achievement of balanced regional development through cooperation with individual counties, municipalities and cities. Pursuant to business cooperation agreements concluded between HBOR and counties, municipalities and cities, entrepreneurs can count on interest rate subsidies, on HBOR's loans, awarded by a county, municipality or city. In certain areas, the agreements introduced a possibility of lending to entrepreneurs at an interest rate as low as 0 percent. During 2020, such agreements were in effect with respect to 38 units of local and regional government.

Lower interest rates for entrepreneurs operating or that will be operating in earthquake-struck areas

Following the earthquakes that hit certain Croatian areas at the end of 2020, HBOR introduced, at the beginning of 2021, special benefits under the loan programmes for the financing of private sector investment, public sector investment and working capital, which enabled more favourable lending terms and conditions for entities that operate or will operate in the Sisak-Moslavina county in order to accelerate the restoration of destroyed and damaged facilities and equipment, the establishment of regular operations and the promotion of economic development in this area. Investment in this area can be financed at interest rates as low as 0.8 percent, whereas working capital loans can be approved at an interest rate as low as 0.3 percent. Fees for loan processing and changing loan terms and conditions have been abolished, direct lending has been enabled for working capital in the amount of more than EUR 100 thousand, and collateral requirements have been reduced.

HBOR may, under the same conditions, consider loan applications for recovery from the consequences of earthquakes for private and public sector business entities operating in the Zagreb and Karlovac counties.

LENDING TO PRIVATE RENTERS

In 2020, lending continued pursuant to the Agreement on Business Cooperation on the Implementation of Lending to Private Renters that had been signed in 2019. The participants in the implementation of this Agreement were the Ministry of Tourism, commercial banks and HBOR.

The objective of this programme is to harmonise the standards of accommodation facilities in which hospitality services are provided in households, to raise the quality level and offer additional private accommodation. Financing is based on HBOR's loan funds, whereas the Ministry provides the funds for subsidising a portion of the agreed regular interest rate charged to final borrowers (2.0 or 2.7 percent, depending on the currency in which the loan is applied for).

COOPERATION WITH HAMAG-BICRO

In 2020, business cooperation with HAMAG-BICRO was continued under the following guarantee programmes:

- ESIF individual guarantees for investment loans and working capital loans intended for small business entities (except for agricultural, fishing and trading activities, etc.),
- ESIF individual guarantees for rural development intended to facilitate access to finance for micro, small and medium-sized enterprises in the agricultural, processing and forestry industries,
- ESIF limited portfolio guarantee intended to facilitate access to finance for micro, small and medium-sized enterprises in the SME sector,
- Programme Plus intended to facilitate access to finance for micro, small and medium-sized enterprises in the SME sector.

NATURAL CAPITAL FINANCING FACILITY (NCF) - CREDIT LINE FOR THE FINANCING OF NATURAL CAPITAL

In order to preserve and protect natural capital, HBOR and the EIB entered into the Natural Capital Financing Facility in 2018, by means of which the EIB approved a loan of EUR 15 million to HBOR for the purpose of financing the conservation and sustainable use of biodiversity through green entrepreneurship and climate change adaptation by using natural solutions. Thus, HBOR became the first National Promotional Institution (NPI) in the EU to implement the NCF and consequently further strengthened its role in promoting environmental protection in Croatia.

The implementation started in 2020 through HBOR's loan programmes: Public Sector Investment; Private Sector Investment; Youth, Female and Start-Up Entrepreneurship; EU Projects. Loans were approved at favourable terms and conditions to borrowers whose projects fitted into one of the following basic components of the NCF:

- Green infrastructure (e.g. green roofs, green facades, urban parks, tree lines, watercourses, agriculture, forest parks, natural shores and beaches, etc.),
- Green entrepreneurship (e.g. organic agriculture, cultivation of native varieties and breeds, ecotourism and adventure tourism based on natural values, sustainable aquaculture, fisheries and forestry and similar entrepreneurial ideas based on sustainable use of natural resources),
- Payment for ecosystem services (e.g. reduction of the amount of artificial materials and chemicals released into the environment, conscious maintenance or improvement of native European biodiversity, etc.),
- Compensatory measures for damage to the environment (projects that will provide services to entities whose projects cause damage to the environment by offering them compensatory elimination of damage in damaged area or alternative location).

Favourable loan terms and conditions include reduced loan application processing fee, exemption from the payment of commitment fee and reduction of interest rate ranging from 0.25 to 1.00 percent depending on the category of borrowers (public/private sector) and the degree of project impact on environment preservation.

In addition to funding, under the NCF, entrepreneurs and public sector entities are provided with free technical assistance in the form of advisory services – establishment whether NCF criteria are met,

assistance in identifying co-finance, steps for the preparation of loan application, technical advice, assistance relating to marketing strategy, reporting on project status and achievements, etc.

ADVISORY SERVICES TO THE PUBLIC SECTOR THROUGH THE EUROPEAN INVESTMENT ADVISORY HUB – EIAH

In July 2020, the European Investment Bank confirmed its interest in financing HBOR's project of providing advisory services to the public sector, which was submitted under EIB's public call for project proposals of national promotional banks or institutions in EU Member States for activities that would result in the provision of advisory services to public and/or private users through the European Investment Advisory Hub (EIAH).

The objectives of the project are to increase the quality and volume of public sector investment in the Republic of Croatia in order to balance local and regional development and improve the absorption of European structural and investment funds in the next Multiannual Financial Framework (2021-2027) through advisory assistance in structuring sustainable cost-effective public sector projects, primarily those of local and regional government units.

Advisory services and technical assistance to local and regional government units will be provided by consultants and will include the preparation of project documentation and complete loan application documentation. This Project component aims to help develop approximately EUR 10 million worth of investment projects of local and regional government units (or companies owned by them).

External consultants will provide to HBOR advisory services and technical assistance in planning and structuring cost-effective public investment projects as well as assistance in organising promotional campaigns and trainings.

The total value of the Project is EUR 670,125.00, of which the EIAH will finance up to a maximum of 75 percent of Project costs, i.e. up to a maximum of EUR 500,000.00. The difference of up to 100 percent of the Project costs, which may amount to a maximum of EUR 170,125.00 according to the estimated total costs of the Project, will be financed by HBOR from own funds.

The implementation agreement was signed in February 2021, and the realisation of the Project is expected during 2021.

EXPORT CREDIT INSURANCE

HBOR performs export credit insurance and reinsurance activities as mandate activities with an objective of encouraging exports, promoting internationalisation of operations and increasing competitiveness of Croatian exporters in foreign markets.

Due to the situation caused by the COVID-19 pandemic, which is primarily reflected in the lack of liquidity on the part of Croatian exporters, HBOR has placed special emphasis on facilitating liquidity financing for exporters by introducing, under mandate export credit insurance activities, previously described new insurance methods within the COVID-19 Measures.

During 2020, HBOR insured a turnover of HRK 2.10 billion, an increase of 84 percent compared to 2019, which is largely a result of the use of new insurance programmes intended to insure loans granted to Croatian exporters.

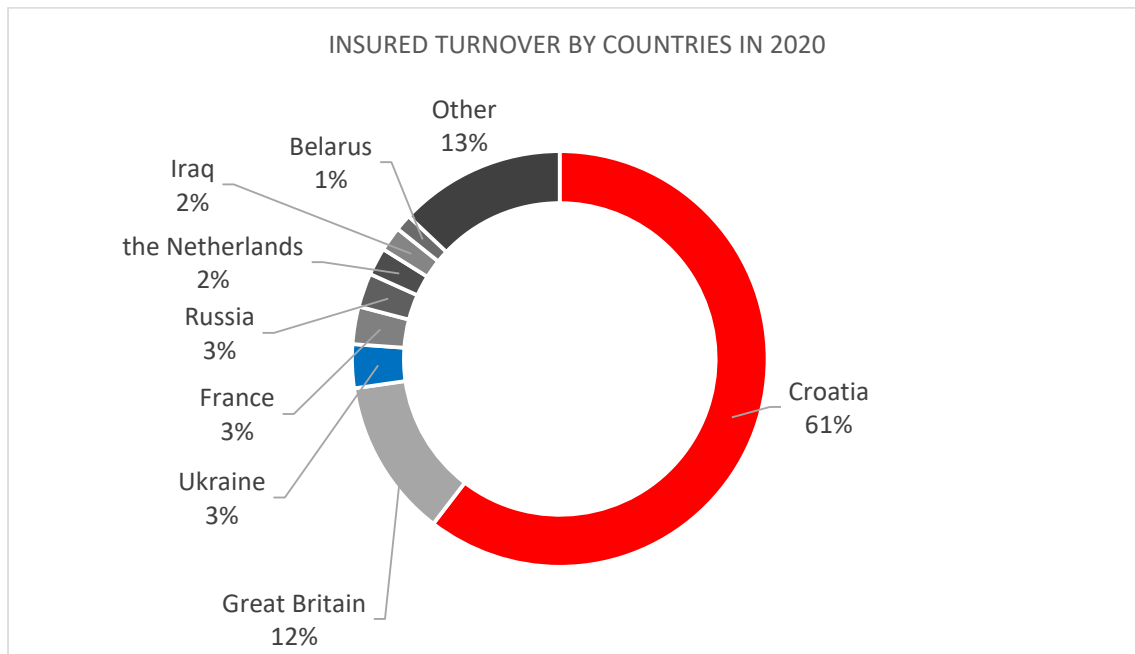
In 2020, the umbrella act regulating export credit insurance activities was amended – the Export Credit Insurance Regulation. The new Export Credit Insurance Regulation (Official Gazette of the Republic of Croatia, No. 53/2020), which entered into force on 1 May 2020, enabled HBOR to strengthen activities in the field of export credit insurance and introduce new products with the aim of developing, strengthening and internationalising the economy of the Republic of Croatia. The amendments to the Regulation widened the scope of entrepreneurs who could use export insurance programmes to include also those who did not have export contracts, but who had achieved a certain percentage of exports in the previous period, as well as to include exporters' suppliers, i.e. entities indirectly contributing to exports and internationalisation of the Croatian economy.

To increase capacities due to the implementation of the new COVID-19 Measures, the Ministry of Finance paid HRK 150 million into the Guarantee Fund, which was the largest payment in one year until then. The balance of the Guarantee Fund as at 31 December 2020 stood at HRK 477.24 million.

In 2020, through its export credit insurance programmes, HBOR supported exports of Croatian goods and services to 47 countries worldwide.

Summary of results by export credit insurance activities, in HRK million

| Description | 2018 | 2019 | 2020 |
|--|----------|----------|----------|
| Total approved sum insured | 1,787.58 | 669.07 | 1,889.71 |
| Total insured turnover | 2,692.00 | 1,141.20 | 2,096.80 |
| Gross exposure as at 31 December | 2,959.73 | 1,662.67 | 3,142.28 |
| Insurance premium collected | 17.48 | 16.41 | 13.45 |
| Indemnities paid | 0.21 | 138.67 | 0.02 |
| Recourse collections from debtors | 40.66 | 32.04 | 9.27 |
| Guarantee Fund balance available as at 31 December | 387.74 | 301.97 | 477.24 |



GROSS EXPOSURE

As at 31 December 2020, gross exposure of HBOR under the export credit insurance activities stood at HRK 3.14 billion, an increase of 89 percent on the same date in 2019. This is the highest gross exposure of HBOR since the start of HBOR's export credit insurance activities. This increase is a result of the introduction of new insurance programmes and the increase in the volume of transactions insured in 2020.

INSURANCE OF SHORT-TERM EXPORT RECEIVABLES

Under the programme for the insurance of short-term export receivables, HBOR provides cover against non-marketable and temporary non-marketable risks¹ for short-term receivables of exporters for which deferral of payment of up to 2 years has been agreed.

Through the programme for the insurance of short-term export receivables, in 2020, HBOR insured the turnover of HRK 407.04 million. In 2020, the insured turnover exceeded the turnover insured in 2019 by 11 percent as a result of a higher demand among exporters for HBOR's insurance policies due to the crisis caused by the COVID-19 pandemic that also affected the reduction of supply in the private market of export credit insurance. Most of the insured transactions related to the cover provided for exporters involved in the manufacture of pharmaceutical preparations, photovoltaic modules, wood

¹ Non-marketable risks are commercial and political risks of public and private debtors domiciled outside the European Union or the OECD regardless of maturity, i.e. all risks to all debtors regardless of domicile whose maturity includes the production period of two years or more.

In cases where marketable (market) risks cannot be insured in the private market, for example due to lack of capacity of private insurers, such risks are considered temporarily non-marketable and can be insured with a state insurer if the following conditions are met:

- risks of micro, small and medium-sized enterprises whose annual export turnover does not exceed two million euros,
- risks arising from an individual export transaction or export to one foreign buyer with a risk period of 181 days to two years,
- all other risks assessed by the European Commission as temporarily non-marketable.

products, air handling units and rubber products. The largest volume of insured export turnover was realised for buyers in Ukraine, France, the Netherlands, Switzerland and Italy.

INSURANCE OF SHORT-TERM EXPORT RECEIVABLES FOR SMALL EXPORTERS

The programme for the insurance of collection of short-term export receivables of small exporters is intended for medium-sized and small exporters with an annual export turnover of up to EUR 2 million and for those starting the sales of their products and services in the foreign markets.

In the first half of 2020, HBOR amended the Short-Term Export Receivables Insurance Programme for Small Exporters by increasing the maximum insured amount per insurance policy from EUR 50,000 to EUR 150,000. These insurance policies allow exporters to take out insurance in a shorter period of time and with reduced administrative obligations.

In 2020, for this category of exporters, the approved volume of insurance totalled HRK 5.52 million, an increase of 165 percent on 2019. The significant increase in the approved insurance was influenced by the amendments to the Short-Term Export Receivables Insurance Programme for Small Exporters as well as by a higher demand among exporters for HBOR's insurance policies due to the crisis caused by the COVID-19 pandemic. Most of the supported transactions were related to the export of goods and services from the processing industry and the export of agricultural and food products.

The largest volume of insured export turnover was realised for buyers in Slovenia, Great Britain, Bosnia and Herzegovina, Serbia, Lithuania and Tunisia.

REINSURANCE OF SHORT-TERM EXPORT RECEIVABLES

The programme for the reinsurance of short-term export receivables is intended for insurance companies operating in the market of the Republic of Croatia that provide cover for export receivables of Croatian exporters.

Under the programme for the reinsurance of short-term export receivables, in 2020, HBOR reinsured the export turnover in the amount of HRK 6.71 million. The majority of transactions covered the export of goods and services in the food and processing industries for buyers in Ukraine, Serbia and Bosnia and Herzegovina.

INSURANCE OF DIRECT DELIVERIES OF GOODS AND SERVICES/SUPPLIER CREDITS AND DAMAGE DURING PRODUCTION PROCESS

Under the programme for the insurance of direct deliveries of goods and services and damage during production process, that provides cover primarily for the export of capital equipment and related services, the volume of insured export turnover equalled HRK 355.68 million in 2020, an increase of 172 percent on 2019.

The increase in the insured turnover under this programme is the result of a larger number and volume of insured export transactions of Croatian exporters in foreign markets compared to 2019, which is the result of raising awareness among entrepreneurs about the importance and possibilities of insuring non-payment risks when exporting capital equipment and related services. The insured export transactions related to the export of goods and services in the energy, telecommunications and machinery production sectors.

Under this programme, exports to the markets of Montenegro, Spain, Lithuania, France and the United Kingdom were insured, and in terms of more distant export markets, HBOR supported exports to Belarus, Cuba, Morocco, Iraq, China, and Indonesia. Under the programme, HBOR insured some of the exporters exporting to the market of the United Kingdom also against the risk of inability to perform export projects due to reasons that could arise on the part of the foreign buyer (e.g. termination of contract).

INSURANCE OF PRE-EXPORT FINANCE LOANS

The programme for the insurance of pre-export finance loans enables banks to finance working capital for exporters at the stage of export goods production and facilitates access to loans for exporters who would otherwise not be able to obtain loans due to insufficient collateral.

Under the programme for the insurance of pre-export finance loans during 2020, banks were granted loan insurance in the total amount of HRK 191.60 million, of which the amount of HRK 75 million was approved to entrepreneurs in the wood industry. Namely, in order to facilitate access to working capital financing for entrepreneurs in the wood processing and furniture production industries, whose operations were negatively affected by the crisis caused by the COVID-19 pandemic, HBOR amended the Programme for the Insurance of Pre-Export Finance Loans. These amendments enabled the issuance of insurance policies for working capital loans approved as a COVID-19 measure under the risk-sharing model between HBOR as a lender and commercial banks. In order to lower the costs of insurance premiums for entrepreneurs under insurance policies, the Ministry of Agriculture co-finances the insurance premium up to the amount of *de minimis* aid.

Besides exporters engaged in wood processing industry, the exporters engaged in fisheries, production of electrical equipment, maritime and coastal transport, production of computers, welding electrodes and wires, metal structures and metal products were supported through the programme for the insurance of pre-export finance loans.

INSURANCE OF EXPORT PERFORMANCE-RELATED GUARANTEES

In 2020, the volume of insurance granted by HBOR under this programme totalled HRK 55.03 million.

Under the programme, HBOR concluded insurance policies for bank guarantees issued in connection with the performance of export contracts of Croatian exporters in the markets of Russia and Serbia, thus contributing to the successful execution and realisation of export transactions in these markets.

INSURANCE OF WORKING CAPITAL LOAN PORTFOLIO FOR EXPORTERS

This programme was adopted at the end of 2019 and is implemented in cooperation with banks as insured parties in order to facilitate access to working capital financing for small and medium-sized enterprises and to encourage them to export and enter new export markets. Banks, in accordance with pre-defined programme terms and conditions and insurance costs, independently decide on loans to be included in the portfolio covered by HBOR with 80 percent coverage of the principal and regular interest for each loan.

At the beginning of 2020, the programme was amended to enable its use, not only by exporters who had executed export contracts but also by those who had not, and who had achieved 30 percent of export turnover in the previous financial year. Portfolio insurance agreements were concluded with 8 banks in the total amount of HRK 312 million, whereas 73 bank loans totalling HRK 58.57 million were insured during 2020.

INDEMNITIES PAID

In 2020, two indemnities were paid under the programmes for the insurance of short-term export receivables in the total amount of HRK 21.23 thousand. In 2020, the amount of HRK 49.09 thousand was paid to the insured as compensation for costs incurred for the purpose of reducing possible damage or for the purpose of enforced collection.

Furthermore, in 2020, altogether 16 non-payment notifications were received, of which 13 related to the programme for the insurance of short-term export receivables and 3 to the programme for the insurance of direct deliveries/supplier credits.

RECOURSE COLLECTIONS FROM DEBTORS

During 2020, HBOR collected, under previously paid indemnities, a significant amount of recoveries equalling HRK 9.27 million. Almost the entire amount of recourse collections in 2020 (99.93 percent) related to a recovery from a public debtor from Bosnia and Herzegovina.

RISK MANAGEMENT

Pursuant to the Act on HBOR, the Bank is obliged to reduce risks in its operations to the lowest level possible by applying the principles of banking operations.

In the risk management process, HBOR continuously identifies, assesses, measures, monitors, contains and controls risks it is or may be exposed to in its operations and reports thereupon to the relevant bodies. These procedures and adequate internal documents ensure a comprehensive and complete risk management system. The most significant risks HBOR is exposed to in its everyday operations are credit risk, liquidity risk, interest rate risk, currency risk, operational risk and outsourcing risk. These risks are managed in day-to-day operations through policies, ordinances, procedures, methodologies, limit instructions and systems, controls and decisions/conclusions of the Supervisory Board, the Management Board and the Risk Management Committee.

HBOR has a functionally and organisationally separate and independent organisational unit for controlling business risks that is directly responsible to the Management Board. This organisational unit is responsible for the identification, assessment, measurement, supervision and control of risks the Bank is or may be exposed to in its operations. The Risk Management Unit performs its function by analysing, assessing, measuring risks, developing risk-management related policies, ordinances, procedures and methodologies, supervising and monitoring their implementation, recommending limits and monitoring the adherence to the adopted limits, giving recommendations and suggestions for adequate risk-management as well as reporting to the relevant bodies.

When assessing and measuring risks, HBOR takes into account historical data, business plans, current and expected market conditions and specific features of the Bank as a special financial institution. The results of measurements/assessments, of analyses and stress tests are reported to the Risk Management Committees, the Management Board and the Supervisory Board. A system of limits has been established for the purpose of monitoring and controlling credit risk, liquidity risk, interest rate risk and currency risk. Reports are systematically submitted to relevant bodies on: credit portfolio quality, high exposure and maximum permitted exposure, regulatory capital adequacy, collection of receivables and risky placements, changes in commercial banks' internal ratings and actions taken in the event of their deterioration, liquidity status ratios and liquidity projections, open foreign currency positions, impacts of fluctuations in foreign exchange rates and interest rates on business performance, interest gap, projections of average weighted interest rates on sources and placements, etc. The dynamics of reporting and the methodologies for measuring and assessing risks have been prescribed by the internal documents of the Bank.

The Bank performs sensitivity analyses and scenario analyses by assuming changes in one or more risk factors in regular and stressful circumstances of operations and it reports on the results of such analyses to HBOR's bodies in charge. Systems of proactive risk management are continuously developed for the purpose of mitigating potential future risks.

The Management Board of HBOR is responsible for the implementation of the risk management strategy and for the establishment and implementation of an effective and reliable risk management system. For the purpose of accomplishing its function, the Management Board has delegated its powers to four risk management committees:

- Asset and Liability Management Committee – manages liquidity risk, interest rate risk and currency risk through the prescribed policies, ordinances and procedures that regulate this area,
- Credit Risk Assessment and Measurement Committee – manages credit risk through the prescribed policies, ordinances and other internal documents that are related to credit risk,
- HBOR Information System Management Committee – manages the resources of the information system and adequately manages the risks that arise from the use of information technology,
- Business Change Management Committee – manages business changes (co-ordination of the procedures for the suggestion, approval, monitoring and implementation of business changes) in order to reduce the risks associated with the implementation of business changes.

The risk management strategy aims to achieve and maintain a good and efficient system of risk management in line with the local and international banking practices and the recommendations of the Croatian National Bank (HNB), the European regulations and the Basel Committee recommendations applicable to HBOR as a special financial institution.

Credit risk

The Bank controls credit risk through credit policies and credit risk management ordinances that determine the internal control systems with an objective to act preventively.

The credit risk management system is the most important part of HBOR's business policy and an important factor of its business strategy. Therefore, this area is regulated by a separate document called the Credit Risk Management Ordinance that applies to all phases of the credit process (from the development of new banking products, to loan applications, client monitoring and final loan repayments).

The Credit Risk Management Ordinance is a comprehensive document comprised of separate methodologies aiming to evaluate business operations of various client target groups.

In order to mitigate credit risk and reduce operating costs, the Bank, in accordance with the HBOR Act, on-lends part of its placements via financial institutions that assume the risk of collecting repayments from final borrowers. For the purpose of facilitating access to HBOR's funds, the Bank on-lends part of its placements in cooperation with commercial banks through risk-sharing models, under which credit institutions and HBOR share the risk in accordance with pre-defined funding ratios.

Generally, all direct placements and placements through the risk-sharing models are secured by mortgages on immovable property, and, if possible, the Bank requires guarantees issued by HAMAG-BICRO and also other types of guarantees and warranties as collateral. The Bank has determined the required ratio between placement value and collateral value according to the type of collateral, the loan programme, the general terms and conditions of security and the decision of the body in charge.

The Bank's development loan programmes cover the entire territory of the Republic of Croatia with a focus on the supported areas. Credit risk is diversified by geographical regions, activities, sectors and loan programmes. The Bank aims to prevent the excessive concentration of credit risk and, by providing more favourable terms and conditions and creating new loan programmes (products), to promote the development of less developed regions of the Republic of Croatia in accordance with the government development strategy for individual activities.

Liquidity risk, currency risk and interest rate risk

The Bank ensures quality management of liquidity, currency and interest rate risks 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 Bank's organisational units are included, directly and indirectly, in the operations of the Asset and Liability Management Committee in order to ensure a high-quality, integrated and comprehensive system for the management of these risks.

Liquidity risk

The basic principles for managing HBOR's liquidity risk are defined in 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.

For the purposes of managing liquidity risk, the Bank has established a system of limits. The Bank monitors and verifies whether the limits are obeyed. It maintains the necessary level of liquidity reserves, continuously monitors current and planned liquidity and provides sufficient kuna and foreign currency funds necessary for the timely settlement of obligations and disbursements under committed loans and planned commitments. The Bank monitors and strives to achieve compatibility of the existing and planned placements and sources in terms of maturity. The Bank does not take deposits from citizens and is therefore not exposed to wide daily fluctuations in liquidity. The Bank monitors liquidity risk also through scenario analyses and sensitivity analyses both under regular business conditions and under stress. Early warning signals and procedures for liquidity crisis indication or occurrence are determined in the Liquidity Risk Management Ordinance.

Interest rate risk

The basic principles for managing the Bank's interest rate risk are defined in internal documents and in the decisions and conclusions made by the Management Board and the Asset and Liability Management Committee. For the purpose of measuring and monitoring interest rate risk, the Bank analyses the interest rate gap. The interest rate gap is analysed with respect to specific periods in terms of possible changes in interest rates and it illustrates the sensitivity of the Bank to such changes in interest rates both under regular business conditions and under stress. Interest rates are elaborated in detail per currency, type and level of interest rates, and projections of developments in average weighted interest rates on sources and placements are prepared. In addition to harmonisation of interest rates applied on sources and placements, current market conditions and development projections for basic market indicators are also monitored.

Currency risk

The basic principles for HBOR's currency risk management are defined in internal documents as well as in the decisions and conclusions made by the Management Board and the Asset and Liability Management Committee. The methods for the measurement, assessment, monitoring and management of currency risk have been established, the limits and early warning signals as well as procedures in the case of crisis indication or occurrence have been determined, and the reports necessary for overall currency risk containment have been defined.

For measuring the exposure to currency risk, the Bank monitors the open foreign currency position. In addition to the daily monitoring of the open foreign currency position and the preparing of its development projections, the Bank calculates risk values and regularly reports to relevant bodies on the highest possible losses by significant currencies for the purpose of assessing and measuring currency risk. Sensitivity analyses are performed both under regular business conditions and under stress.

Operational risk

The basic principles for operational risk management are determined in the umbrella document: the Operational Risk Management Policies. The system structure of management and responsibility has been set up, the approach to the calculation of capital requirements for operational risk has been defined, and the reporting system and the manner of determining, containing and monitoring exposure to operational risk have been established.

The Information System Management Committee is responsible for the monitoring and supervising IT system performance. Its purpose is to manage the IT resources and to set up the appropriate level of efficiency and security of IT system in order to ensure, among other things, appropriate management of risks arising from IT technology utilisation. The supervision of the IT system security is covered by the IT system security control function. Within this function, a system for the management of HBOR's business continuity has been set up.

In 2020, HBOR's exposure to operational risk was affected by two significant operational risk events – the COVID-19 pandemic and the strong earthquake in Zagreb. As part of its business continuity management procedures, the Bank promptly formed a crisis team and took the steps necessary for the recovery of business. Due to the pandemic, work from home was introduced. The required activities were carried out and the needed resources provided in order to run the business without interruption. The earthquake damaged the Bank's main office building and the procedures to assess the usability of the building and relocate equipment, documents and operations to other business locations were carried out.

Outsourcing risk

The Bank manages the outsourcing risk on the basis of internal documents that are in compliance with the regulations prescribed by the Croatian National Bank applicable to the Bank 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. Reports on materially significant outsourced activities are submitted to the Management Board and the Supervisory Board of the Bank on an annual basis.

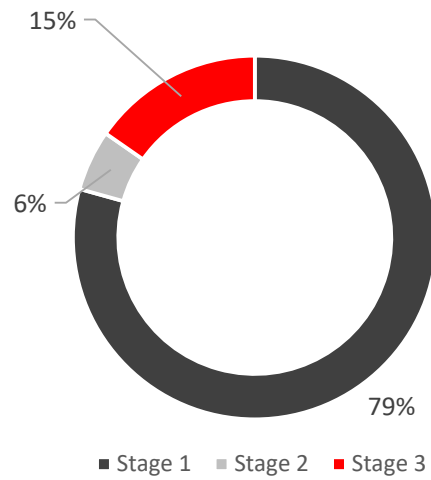
Asset quality of HBOR

Since 2018, HBOR has implemented the International Financial Reporting Standard 9 for the impairment of financial instruments.

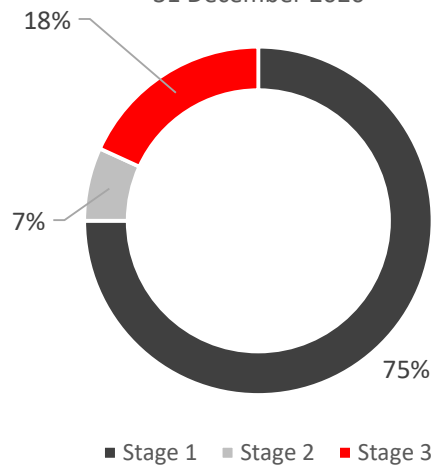
As at 31 December 2020, HBOR's total gross portfolio amounted to approximately HRK 37.4 billion. Of the total portfolio, 79.3 percent was allocated to Stage 1, whereas 5.4 percent was allocated to Stage 2 and 15.3 percent was allocated to Stage 3.

Due to the fact that gross loans account for 72.0 percent of the total gross portfolio, they have the biggest effect on the quality of the total gross portfolio. Altogether 75.0 percent of total loans were allocated to Stage 1, whereas 6.8 percent were allocated to Stage 2 and 18.2 percent were allocated to Stage 3.

TOTAL GROSS PORTFOLIO BY DEGREES OF CREDIT RISK
31 December 2020



TOTAL GROSS LOANS BY DEGREES OF CREDIT RISK
31 December 2020



INTERNAL AUDIT

The Internal Audit unit is part of HBOR's supervision system. It is in charge of monitoring the overall operations on the basis of the principles of legality and HBOR's internal regulations by applying the internal audit standards. The organisational unit of Internal Audit carries out its tasks independently and determines the manner of operating and reporting as well as preparing its findings, opinions and recommendations on its own. It is administratively responsible to the Management Board and functionally to the Audit Committee and the Supervisory Board of HBOR, to which reports are submitted semi-annually. Based on the audit report and according to the recommendations of the Internal Audit unit, the Management Board makes the necessary decisions to take corrective measures and activities.

COMPLIANCE MONITORING FUNCTION

The function of monitoring compliance has been established as an independent and permanent function. Compliance monitoring activities include the identification and assessment of compliance risks to which HBOR is or might be exposed as well as the provision of advice to the Management Board and other responsible persons on the manner of applying relevant legislation, standards and rules, including the information on the latest news regarding these issues.

The compliance monitoring function evaluates the impacts that the amendments to the relevant regulations will have on the operations of HBOR, assesses the compliance of new products or new procedures with the relevant laws and regulations and with the amendments to the regulations, provides advice during the preparation of compliance-related training programmes, provides advice and training relating to ethical behaviour, supervises the implementation and fulfilment of the provisions of the Code of Conduct. The compliance monitoring function submits periodical reports to the Management Board, the Audit Committee and the Supervisory Board of HBOR.

HUMAN RESOURCES

In 2020, HBOR renewed the Employer Partner Certificate that is awarded by Selectio d.o.o. for excellence in human resource management. Since 2006, when HBOR joined the project, permanent growth and development have been observed in all aspects of human resource management. In 2020, HBOR achieved 88 percent of total scores, thus retaining the high standard across all 45 human resource management processes under certification.

Such a result was attained due to the established processes in all five areas assessed and owing to continuous efforts in the development of employee management process aimed at meeting the needs of both the bank and the market.

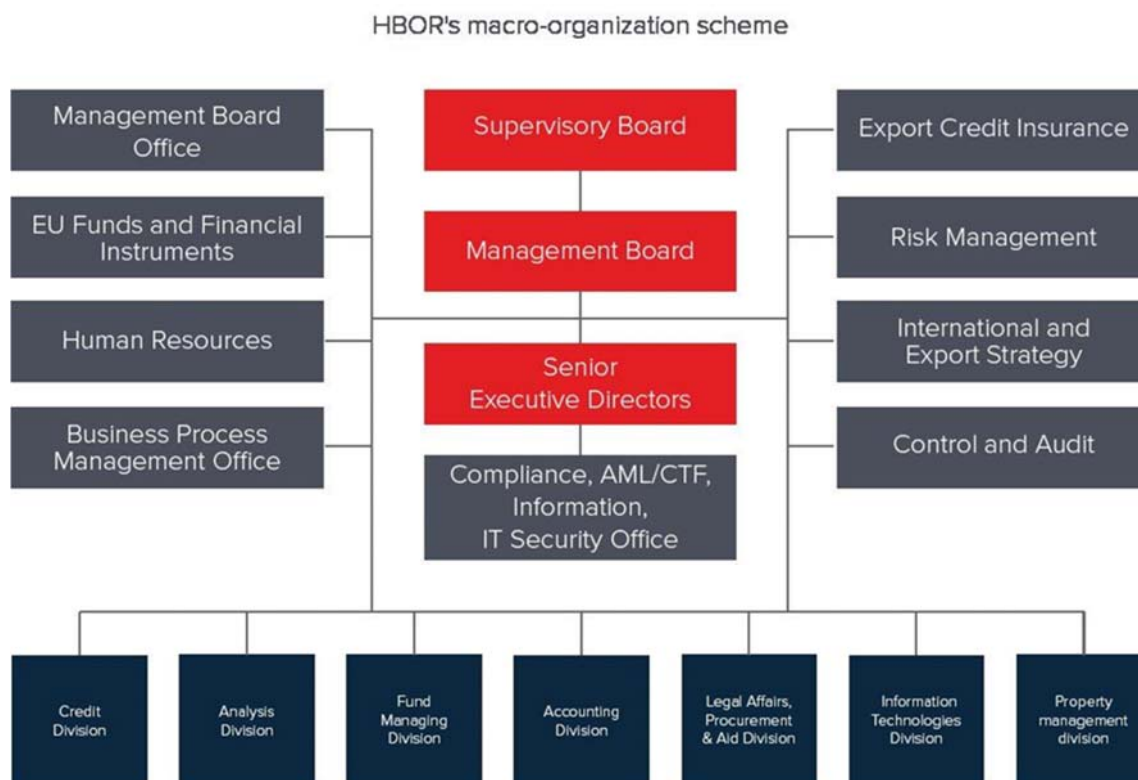
The goal of the human resource management process is to select quality employees and ensure their permanent upgrading and management as the only way to achieve excellence in work. Regular processes and activities related to the management of human resources cover the entire career of an employee in the organisation and provide support to the management in the area of human resource management: selection and employment of candidates, management of employees' goals and competences, remuneration as well as development of employees' skills. After employment, that is carried out on the basis of clear selection criteria, new employees are introduced to business through in-house training programmes. Success at work of all employees is monitored and documented on a quarterly basis, whereas individual interviews take place on an annual basis. Training and development

of competences considered crucial in the activities that are performed by employees are organised through in-house workshops and through participation in individual external training programmes.

Due to the pandemic and the destruction of business premises by the earthquake, many HBOR's employees have started working from home since mid-March. The entire work of HBOR has been adjusted to the new circumstances, and work from home has been regulated with those employees, whose nature of tasks and duties allows it.

As at 31 December 2020, there were altogether 365 employees, of which 328, i.e. 90 percent, holding a university degree. The average age of employees was 44. The share of women in the total number of employees was 66 percent and the share of men 34 percent.

Organisational structure of HBOR as at 31 December 2020



OTHER ACTIVITIES

Digitalisation of operations and upgrade of system

Owing to the systematic development of HBOR's IT system, regular investment in IT infrastructure, monitoring of market trends and implementation of modern IT solutions, HBOR was able to ensure uninterrupted functioning of all HBOR's services and all business processes under extreme conditions caused by the pandemic and earthquakes, which completely changed the way of doing business in Zagreb, Croatia and around the world overnight.

The transition of all employees to work from home was organised during one weekend without causing interruptions in business operations, whereas earthquakes in Zagreb and the surrounding area did not affect the availability of IT systems that retained all existing functions throughout the year and continued to develop and introduce new functionalities.

Digitalisation of loan origination

In April 2020, production activities began in the Loan Origination application. The application is based on modern technological platforms and represents the basis for further digitalisation of the loan process and additional acceleration of business processes in HBOR.

Preparation of HBOR for the implementation of a new core banking system (Core Project)

One of the key guidelines of HBOR's information system strategy is the need to implement a new modern core banking system. HBOR nominated the project "Preparation for the Transformation of HBOR's Core Banking System" for the financing under the SRSS (Structural Reform Support Service) of the European Commission. The funds were approved at the end of 2019 and the project started in 2020. The objective of the project is to take a snapshot of the current situation, define the scope of the core banking system implementation project and prepare functional specifications and other documentation necessary for the implementation of public procurement. The project is planned to be completed by mid-2021.

Development of a new rating system

During 2020, the project of introducing a new rating system of HBOR was brought to the final stage, which would enable the improvement of the assessment of credit risk and funding costs. It is a very extensive and complex project, whose financing was approved from the funds of the Structural Reform Support Service (SRSS) of the European Commission. The European Commission entrusted the implementation of this project to the consulting company Deloitte. The project was completed at the beginning of 2021, the methodology will be tested and integrated into HBOR's business processes during 2021, whereas the official implementation is expected in 2022.

International cooperation and internationalisation

The first Croatian presidency of the Council of the EU (HR PRES) lasted from 1 January to 30 June 2020, during which HBOR was Deputy Chair of the Ministry of Finance in the team for chairing the Working Group on Export Credits of the Council of the EU (ECG). Despite extraordinary circumstances, the ECG was very active during the presidency, especially due to the need to react quickly to the negative effects of the pandemic on exports.

HBOR pays special attention to the establishment and maintenance of successful relations with international financial institutions, development banks, export credit agencies, associations and clubs such as the European Association of Public Banks (EAPB), the Network of European Financial

Institutions for SMEs (NEFI), the Banking Association for Central and Eastern Europe (BACEE), the Berne Union, the United Nations Environment Programme Finance Initiative (UNEP FI), the UN Global Compact, the International Development Finance Club (IDFC), the China-CEEC Inter-Bank Association, the Invest Europe, the International Chamber of Commerce (ICC) and, as an establishing member, the European Long Term Investors association (ELTI).

HBOR has a very active role in several associations: Tamara Perko, President of HBOR's Management Board is a member of the Management Board of the European Association of Long-Term Investors (ELTI), member of the Administrative Board of the European Association of Public Banks (EAPB) and member of the Board of Directors of the China-CEEC Inter-Bank Association, which she chaired from 2019 to 2020.

Active participation in their work enables HBOR to get a better insight into the activities of banks from other countries, to develop new manners of financing for Croatian entrepreneurs, to influence the EU regulations through the development of standpoints of associations and through lobbying, but also to exchange best practices and specific knowledge of members in various business fields.

In 2020, based on the increased volume of HBOR's operations and investment in venture capital funds as well as the increasingly frequent changes in regulations and legislation in the field of venture capital investment at the EU level, HBOR became a member of the European Venture Fund Investors Network (EVFIN). EVFIN is an informal platform for dialogue and cooperation that brings together 21 public investors from 17 European countries for the purpose of exchanging information and best practices among members.

From March 2020, most events were held in a virtual format. The global pandemic changed the way of conducting business significantly, especially in the context of international relations, and set the priorities of development institutions in the framework of intervention measures to combat the negative effects of the pandemic on the economies.

In November 2020, HBOR participated in the first summit of public development banks entitled "Finance in Common" held within the Paris Peace Forum, at which, together with 450 banks from around the world, HBOR signed the "Joint Declaration of Public Development Banks" and "Statement on Gender Equality and Women's Empowerment". The Declaration and the Statement emphasise the significant role of public development banks in achieving the goals of sustainable development and provide guidelines for further activities and operations of development banks in the world.

In November 2020, Tamara Perko, MSc, President of the Management Board of HBOR, was appointed Member of Administrative Board of the European Association of Public Banks (EAPB) for the second term of office. The reappointment of Ms Tamara Perko to the Administrative Board of the EAPB confirmed the status of HBOR as an important member and representative of smaller development banks in this European association and an important factor in the implementation of common European policies.

Cooperation with the Croatian Exporters Association was continued, and the internationalisation of the economy was supported also by the cooperation with the Croatian Chamber of Economy and by the participation in the German-Croatian Economic Forum held in Frankfurt in February on the occasion of the Croatian presidency of the Council of the EU. Furthermore, internationalisation was supported by HBOR's participation in economic forums, round tables and business meetings held mostly through virtual channels in the Republic of Croatia.

HBOR continued to be an active member of the Berne Union in 2020 – the world's largest association of export credit insurers with 85 members from 73 countries. Due to the pandemic, almost all Berne Union meetings in 2020 were held via video conference. With the 2020 Autumn Meeting of the Berne

Union, HBOR's mandate in the Management Committee of the Berne Union ended after two two-year terms of office. Until 2021 Autumn Meeting, HBOR's representative holds the position of Deputy Chair of the Prague Club Committee of the Berne Union, being one of the 4 operational committees of the Berne Union.

In order to strengthen the competitiveness of the Croatian businessmen, increase exports and improve business conditions in general, HBOR focused on the long-term successful cooperation with the chambers of commerce in Croatia through the participation of HBOR's representatives in the activities of the committees relevant for HBOR and Croatian businessmen as well as in numerous other events such as assemblies, workshops and seminars.

Personal data protection

In 2020, HBOR continued with updating and supplementing the Register of Personal Data Processing Activities, adjusting business processes to the GDPR and reducing redundancy in data processing through harmonisation of business applications. Furthermore, HBOR conducted several internal employee trainings and an assessment of the impact on data protection in terms of riskier treatment in relation to the current pandemic. Many changes in the manner of processing have additionally reduced the risks of processing personal data of HBOR's employees and clients.

Function of preventing money laundering and terrorist financing

In its operations, HBOR implements the measures, actions and procedures aimed at the prevention of money laundering and terrorist financing in accordance with the provisions of the Anti-Money Laundering and Terrorist Financing Act, the regulations made on the basis of the Act and on the basis of the provisions of HBOR's Anti-Money Laundering and Terrorist Financing Ordinance and HBOR's Methodology for the Implementation of Anti-Money Laundering and Terrorist Financing Measures, Actions and Procedures.

Regional offices

HBOR is regionally present in 19 counties through 6 regional offices (in Gospić, Osijek, Pula, Rijeka, Split and Varaždin). The main role of regional offices is to ensure direct and faster access to information and assistance to entrepreneurs. In the performance of their activities, the regional offices successfully cooperate with offices for the economy of local government units, with relevant chambers of commerce, chambers of trades and crafts, entrepreneurial centres, development agencies, employment agencies and local action groups. Given the restrictive epidemiological measures during 2020, the regional offices adapted their activities to the new situation by maintaining contacts with stakeholders and performing presentation/educational activities through various digital platforms.

Public disclosure of activities

HBOR puts a special focus on providing information to the public about its goals and about the measures for their attainment as well as about the results of its activities by simultaneously following the principle of bank secrecy and its function. Therefore, through various forms of providing information, HBOR regularly informed the public about all its important activities in 2020.

In the reporting year, HBOR published 28 press releases informing the public about the operations, attained results, new loan programmes and amendments to the existing ones. All business information can be accessed on HBOR's websites, except for the information subject to the bank secrecy provisions of the Credit Institutions Act.

During the reporting period, 24 public procurement procedures were published in the Electronic Public Procurement Classifieds. Since 1 July 2017, simple procurement procedures have also been published on HBOR's websites.

In 2020, altogether 21 requests for access to information pursuant to the Act on the Right of Access to Information were received.

OPERATIONS OF HRVATSKO KREDITNO OSIGURANJE GROUP

HRVATSKO KREDITNO OSIGURANJE D.D. AND POSLOVNI INFO SERVIS D.O.O.

Hrvatsko kreditno osiguranje d.d. (HKO) is a joint-stock insurance company specialised in the insurance of short-term receivables (payment terms of up to 2 years) arisen from the sale of goods or services among business entities. The insurance covers political and commercial risks.

In 2020, HKO offered the following insurance products: insurance of domestic and export receivables.

In October 2010, HKO established the company called Poslovni info servis (PIS) and started to operate as the HKO Group and to prepare consolidated financials. Within the HKO Group, PIS is in charge of analysing and assessing credit risks relating to insurance transactions.

As at 31 December 2020, there were 21 employees at HKO Group, of which 16 were employed with HKO and 5 with PIS. Nineteen employees had university degrees and two had secondary school education.

Ownership structure

HKO is 100% owned by HBOR.

Management

Legal status, organisation and management of the Company, all other issues important for the operations of the Company as well as all harmonisation issues provided for in the Companies Act and the Insurance Act are determined by the Statutes of the Company. Company management bodies are: Management Board, Supervisory Board and Shareholders' Meeting.

People authorised to represent

Management Board in 2020

- Zvonimir Samodol, Chairman of the Management Board
- Ružica Adamović, Member of the Management Board

Supervisory Board of HKO

In 2020, the membership of the Supervisory Board of HKO was as follows:

- Vedran Jakšić, Chairman of the Supervisory Board
- Andreja Mergeduš, Deputy Chairman of the Supervisory Board

- Ante Artuković, Member of the Supervisory Board
- Gordan Kuvsek, Member of the Supervisory Board
- Marija Jerkić, Member of the Supervisory Board

Poslovni info servis d.o.o.

Jelena Boromisa performed the function of the Manager of PIS.

Ivana Paić was the authorised representative of the Company.

HKO Audit Committee

In 2020, the membership of the Audit Committee of HKO was as follows:

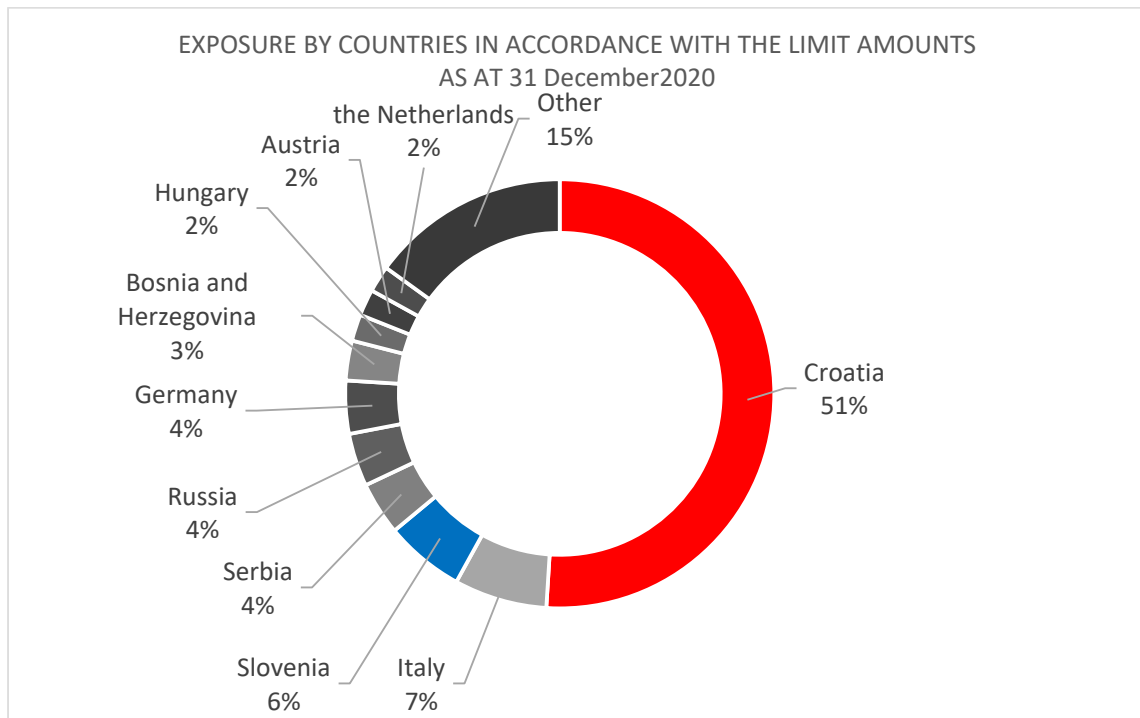
- Ante Artuković, Chairman of the Audit Committee,
- Vedran Jakšić, Deputy Chairman of the Audit Committee,
- Andrea Svečnjak, Member of the Audit Committee.

Reporting to the supervisory bodies

In 2020, the Company provided regular reports to the supervisory bodies on all relevant facts and changes in the Company pursuant to the Insurance Act, the ordinances of the Croatian Financial Services Supervisory Agency and other regulations in force. The Company regularly met all requirements of the supervisory bodies in terms of control of operations and submission of the Company's data.

OPERATIONS IN 2020

As at 31 December 2020, HKO had 108 active insurance contracts in place and generated premium income under 125 insurance contracts in 2020. Altogether 7,336 credit limits were covered by the insurance, an increase of 23.11 percent on the previous year. Within the total structure of limits, 5,087 credit limits were related to domestic receivables and 2,249 credit limits were related to export receivables towards 65 countries of the world.



The total volume of insured transactions in 2020 amounted to HRK 7.29 billion, whereas in 2019 it amounted to HRK 5.58 billion, an increase of 30.65 percent.

In 2020, the total charged premium amounted to HRK 13.08 million, an increase of 8.91 percent on 2019 when it stood at HRK 12.01 million.

In the reporting period, the Company paid 7 indemnities. In 2020, the total amount of paid indemnities amounted to HRK 0.97 million, whereas the amount of paid indemnities in the previous year equalled HRK 7.07 million. The paid indemnities were related to buyers in Croatia, Slovenia, Austria, Italy, Hungary and Serbia.

Insurance business indicators, in HRK million

| | 2018 | 2019 | 2020 |
|---|----------|----------|----------|
| Volume of insured receivables | 4,169.29 | 5,578.50 | 7,290.66 |
| Exposure as at 31 December | 2,091.81 | 2,900.20 | 3,574.09 |
| Gross premium charged | 10.46 | 12.00 | 13.08 |
| Amount of paid indemnities | 9.78 | 7.07 | 0.97 |
| Number of active limits as at 31 December | 4.62 | 5.96 | 7.34 |

Acquisition costs, marketing costs, administration costs and other operating expenses of the HKO Group in 2020 amounted to HRK 7.34 million, whereas, at the Company level, they amounted to HRK 5.90 million.

Risk assessment fee income stood at HRK 1.88 million, whereas they amounted to HRK 1.58 million in 2019.

Net investment income in 2020 stood at HRK 1.82 million (1.73 million in 2019).

The business year 2020 is the tenth full year of operations. Prior to consolidation with the parent's financial statements, the HKO Group recorded profit before taxes for the year in the amount of HRK 2.02 million, whereas 2019 ended with a profit of HRK 554 thousand.

As at 31 December 2020, the total assets of the HKO Group amounted to HRK 62.33 million, an increase of 3.40 percent on the previous year. As at 31 December 2020, the total capital amounted to HRK 43.08 million and technical reserves to HRK 12.63 million net.

PRINCIPLES OF FINANCIAL REPORTING

The HBOR Group prepares:

1. Separate financial statements of the parent company – HBOR,
2. Consolidated financial statements that include HBOR and companies under its control – subsidiary companies.

When preparing and presenting its annual financial statements, the HBOR Group (the parent company and subsidiary companies) applies the International Financial Reporting Standards adopted by the European Union („EU IFRS“).

Financial statements are prepared and presented in order to provide information on the financial position, success in operations and changes in the financial position of HBOR and the HBOR Group in order to enable their users to make appropriate economic decisions and in order to give financial information about how the strategy of the HBOR Group is carried out.

For the purpose of financial reporting and disclosures, the HBOR Group applies the following principles:

- **Transparency in disclosure** in order to enhance its users’ understanding of the presented information,
- **Consistency in presentation** within each reporting period and between reporting periods,
- **Simplicity in disclosure** in order to allow the users to gain an easier understanding of the financial position, business performance and changes in financial position, as well as to ease decision-making,
- **Focusing on legal requirements** in order to ensure compliance,
- **Application of the best presentation practices** appropriate to the Group’s activities with respect to up-to-date international trends in financial reporting as well as market requirements.

OVERVIEW OF FINANCIAL PERFORMANCE IN 2020

The financial statements include both separate financial statements of HBOR and consolidated financial statements of the HBOR Group.

In the text to follow, an overview of the financial performance and operations is given separately for the HBOR Group and HBOR, as the parent company and the entity subject to this report.

The separate and consolidated Annual Financial Statements of HBOR for 2020, which can be found enclosed, have been audited by the audit companies KPMG d.o.o. and BDO Croatia d.o.o. that expressed an unqualified opinion in the common Independent Auditor’s Report.

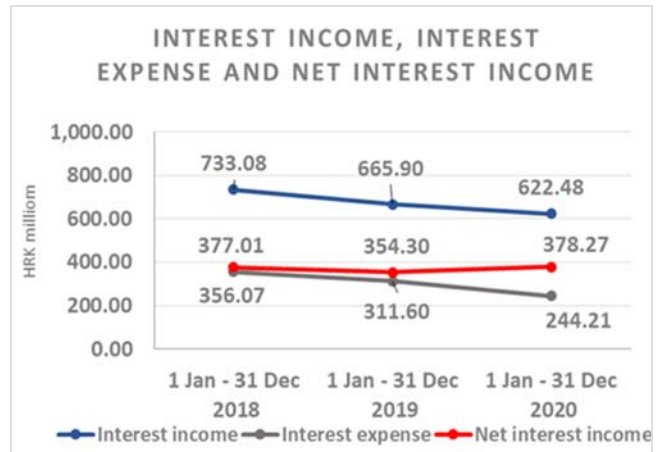
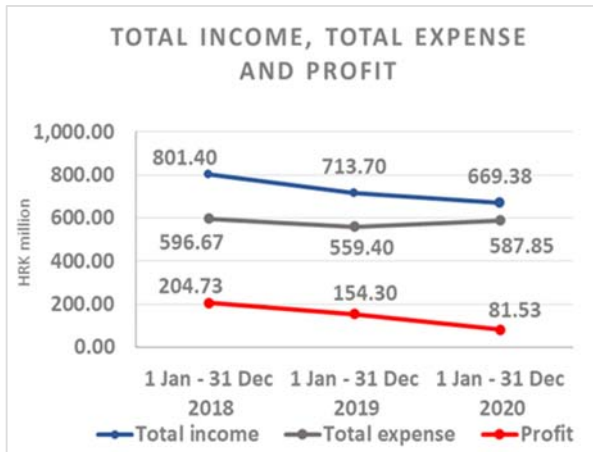
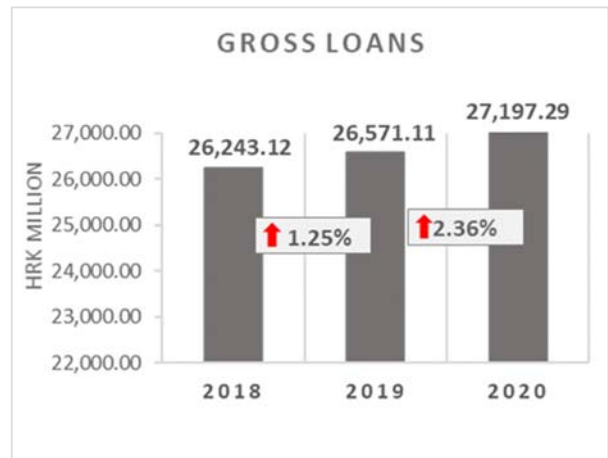
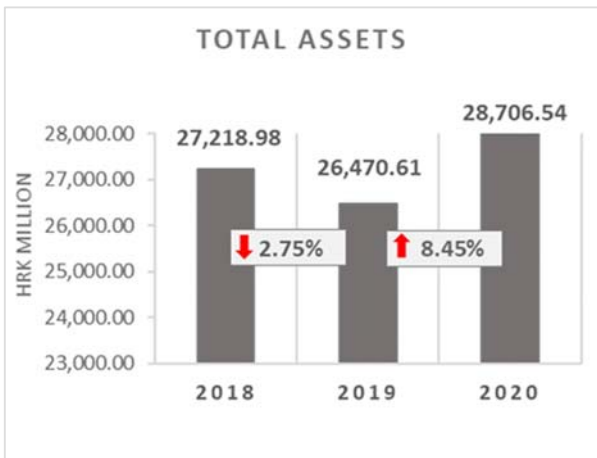
OVERVIEW OF FINANCIAL OPERATIONS OF HBOR GROUP

Having in mind the size of the subsidiary companies and the volume of their operations compared with the operations of the parent company, their financial data are not significant so as to be particularly highlighted within the framework of the consolidated financial statements. Consequently, they do not have a material effect on the consolidated financial statements in comparison with the separate statements of HBOR as the parent company. The HKO Group represents only 0.22 percent of the parent company's assets.

BREAKDOWN OF THE MOST SIGNIFICANT FINANCIAL INFORMATION OF HBOR GROUP

-in HRK million-

| | 2018 | 2019 | 2020 |
|---|-----------|-----------|-----------|
| Total assets | 27,218.98 | 26,470.61 | 28,706.54 |
| Gross loans | 26,243.12 | 26,571.11 | 27,197.29 |
| Total equity | 10,061.10 | 10,274.58 | 10,363.76 |
| | | | |
| Total income | 801.40 | 713.70 | 669.38 |
| Total expense | (596.67) | (559.40) | (587.85) |
| Profit | 204.73 | 154.30 | 81.53 |
| | | | |
| Interest income calculated on the basis of effective interest rate method | 733.08 | 665.90 | 622.48 |
| Interest expense | (356.07) | (311.60) | (244.21) |
| Net interest income | 377.01 | 354.30 | 378.27 |



Results of the HBOR Group

In 2020, the HBOR Group generated profit after tax in the amount of HRK 81.53 million. The recorded profit is by 47.16 percent lower as compared to the previous year, and the reasons are stated in the description of HBOR's financial performance.

Pursuant to the provisions of the Act on HBOR, the parent company is exempt from income tax and income tax liabilities arise exclusively from the activities of the other members of the HBOR Group.

In 2020, total income on consolidated basis amounted to HRK 669.38 million, whereas total expenses amounted to HRK 587.85 million.

In the structure of income of the HBOR Group, the largest portion, i.e. 92.99 percent, relates to interest income as a result of operation of the parent company.

The major part of total expenses, i.e. 41.54 percent, relates to interest expenses as a result of operation of the parent company.

The consolidated operating expenses in 2020 amounted to HRK 156.05 million and consisted of general and administrative expenses and other operating expenses.

There were 386 employees in the HBOR Group on 31 December 2020, whereas there had been 392 employees in the HBOR Group at the end of 2019.

Assets and liabilities of the HBOR Group

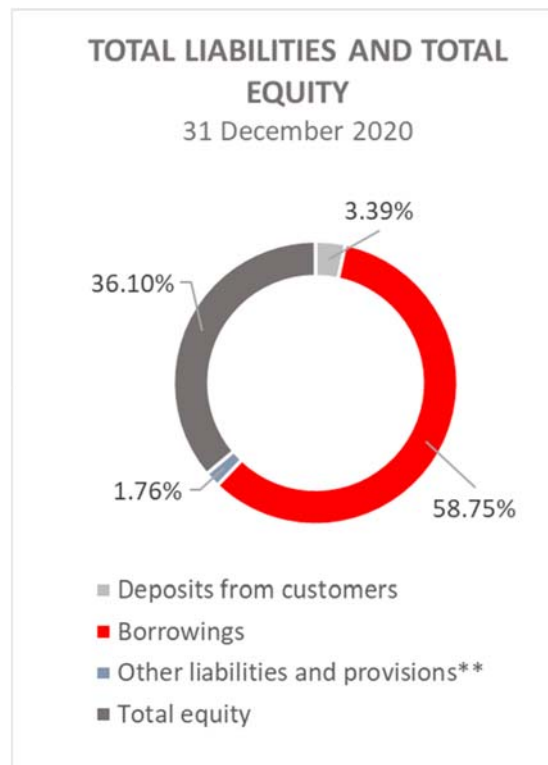
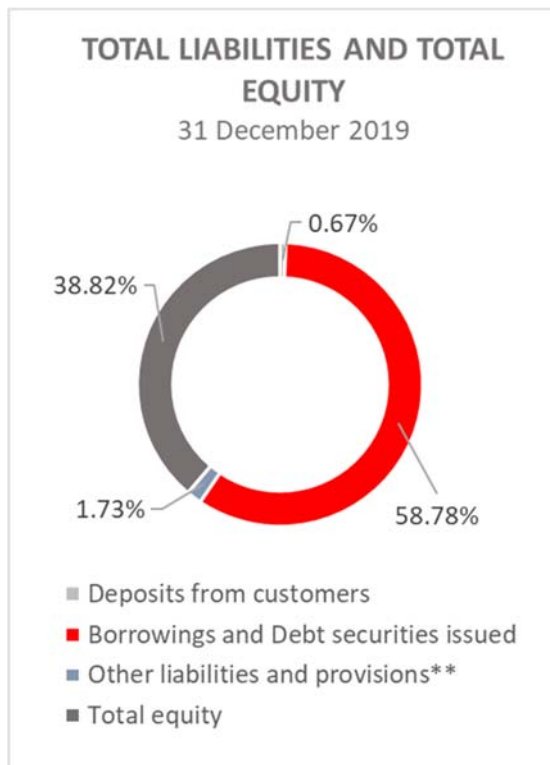
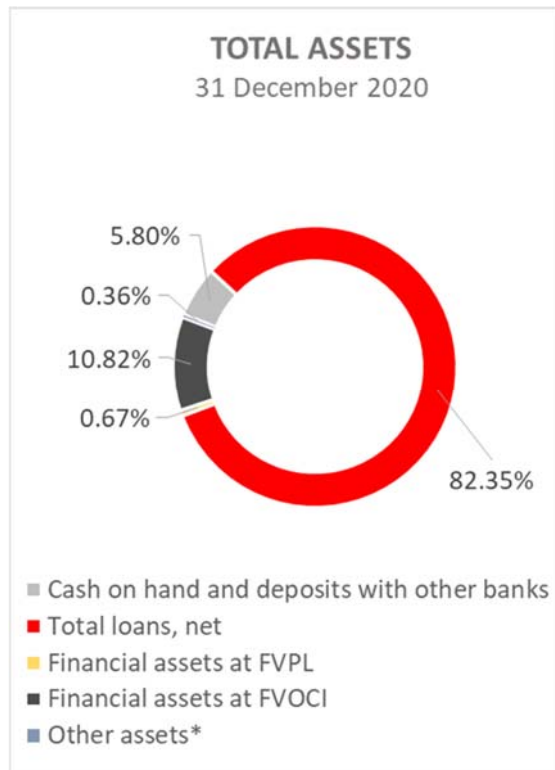
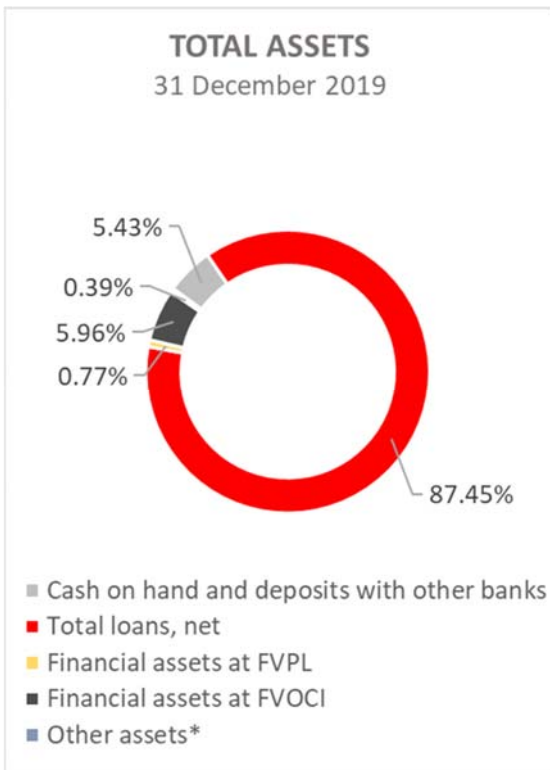
Total assets of the HBOR Group on consolidated basis amount to HRK 28,706.54 million, an increase of 8.45 percent compared with the beginning of the year. The reasons for such tendency are given in the description of financial operations of HBOR.

In the structure of assets, the major portion relates to the lending activities of the parent company, i.e. net loans account for 82.35 percent of total assets.

Total liabilities and total equity as at 31 December 2020 amount to HRK 28,706.54 million and, out of this amount, total liabilities amount to HRK 18,342.78 million, i.e. 63.90 percent.

In total liabilities and total equity of the HBOR Group, the major portion, i.e. 58.75 percent, consists of borrowings of the parent company.

At the end of the reporting period, total equity on consolidated basis amounted to HRK 10,363.76 million and accounted for 36.10 percent of total liabilities and total equity of the HBOR Group.



*Property, plant and equipment and intangible assets, Assets taken over, Debt securities at AC and Other assets.

**Provisions include provisions for guarantees, liabilities taken over and other liabilities.

OVERVIEW OF FINANCIAL PERFORMANCE OF HBOR

The following text gives an overview and explanation of the significant changes in financial position and operating performance in the reporting period.

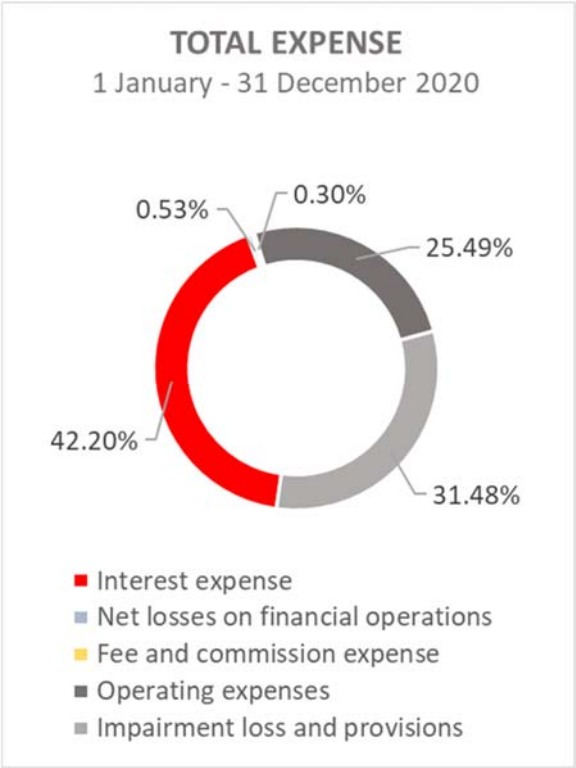
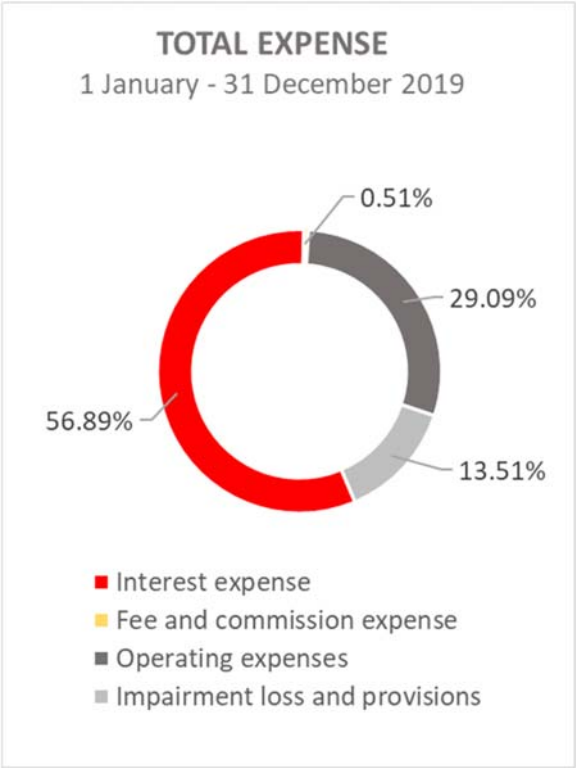
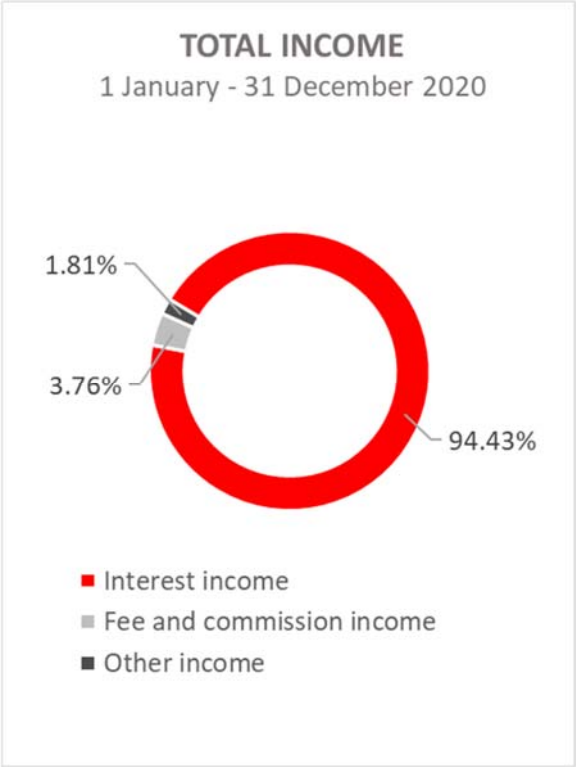
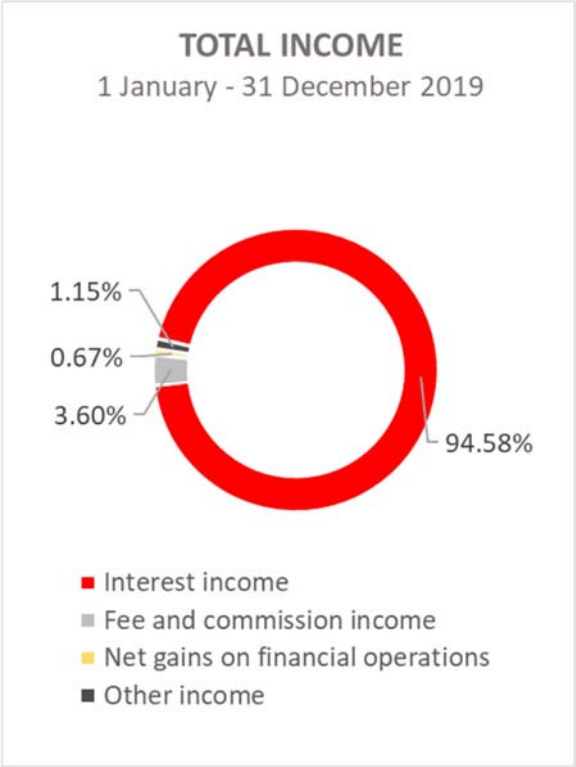
Financial performance

In 2020, HBOR generated total income of HRK 657.97 million, expenses in the amount to HRK 578.63 million and profit in the amount of HRK 79.34 million. HBOR's profit generated in 2020 decreased by HRK 75.71 million compared with the profit generated in 2019, i.e. by 48.83 percent.

The circumstances which resulted in the lower profit generated in 2020 compared to the profit generated in 2019 are as follows:

- (-) decrease in interest income of HRK 43.25 million,
- (+) decrease in interest expenses of HRK 67.37 million,
- (+) increase in fee and commission income of HRK 0.47 million,
- (-) decrease in net gains from financial activities of HRK 7.78 million,
- (+) decrease in operating expenses of HRK 11.84 million,
- (-) increase in losses from impairment and provisions of HRK 108.17 million in comparison with 2019
- (+) increase in other income of HRK 3.81 million.

A detailed description of trends is given for each category separately in the following text.



Net interest income

Net interest income amounted to HRK 377.15 million, an increase of 6.83 percent on the same period of the previous reporting year due to a larger decrease in interest expenses in relation to the decrease in interest income.

Interest income calculated on the basis of the effective interest rate method amounted to HRK 621.34 million, a decrease of 6.51 percent on the same reporting period last year due to the decreased interest income from long-term loans due to the long-term implementation of measures of interest-rate reduction, decrease in interest income from interest rate subsidy, significant amounts of premature loan repayments in the previous four years, implemented restructurings and the manner of recording of interest income from exposures classified to stage 3 and POCI assets (unwinding). On this basis, interest income was reduced by HRK 41.02 million in 2020.

Interest expenses amounted to HRK 244.19 million, a decrease of 21.62 percent on the same reporting period last year, which was mostly affected by the repayment of loans and bonds payable.

Having in mind the described trends in interest income and interest expenses, net interest margin increased by 0.04 percentage points compared with the same reporting period last year and stood at 1.36 percent.

Net fee income

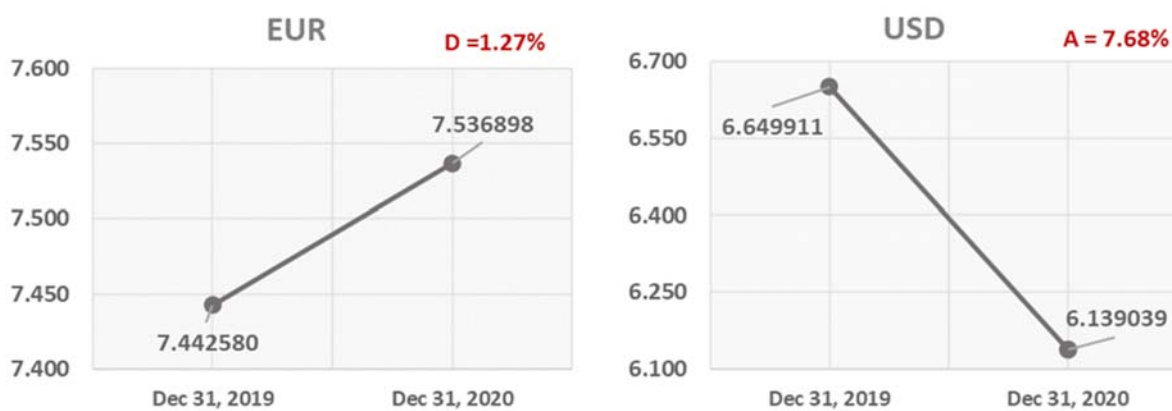
Net fee income amounted to HRK 22.97 million, an increase of 2.09 percent compared with the previous year due to a larger decrease in fee income of HRK 1.01 million compared with the decrease in fee income of HRK 0.54 million.

Net gains/(losses) from financial activities

Net gains/(losses) from financial activities are comprised of net foreign exchange gains/(losses) on the principal amount of receivables and liabilities, net revenues or expenditures arising out of the loan contracts with embedded call option, gains/(losses) arising out of value adjustment of financial assets stated at fair value through profit or loss and realised gains/(losses) arising out of financial assets at fair value through other comprehensive income.

In the reporting period, net gains from financial activities amounted to HRK 3.04 million, whereas net gains stood at HRK 4.74 million in the same period previous year.

A breakdown of changes in the exchange rate of HRK against the EUR and the USD:



Note:

D= HRK depreciation 2020/2019

A = HRK appreciation 2020/2019

Foreign currency and foreign currency indexed assets and sources of funds are converted by HBOR into HRK equivalent value by applying the exchange rate of the Croatian National Bank valid at the reporting date.

Foreign currency revenues and expenditures are converted in accordance with the exchange rate at the transaction date. The resulting foreign exchange gains or losses are recorded in the Profit or Loss Account in net figures.

Operating expenses

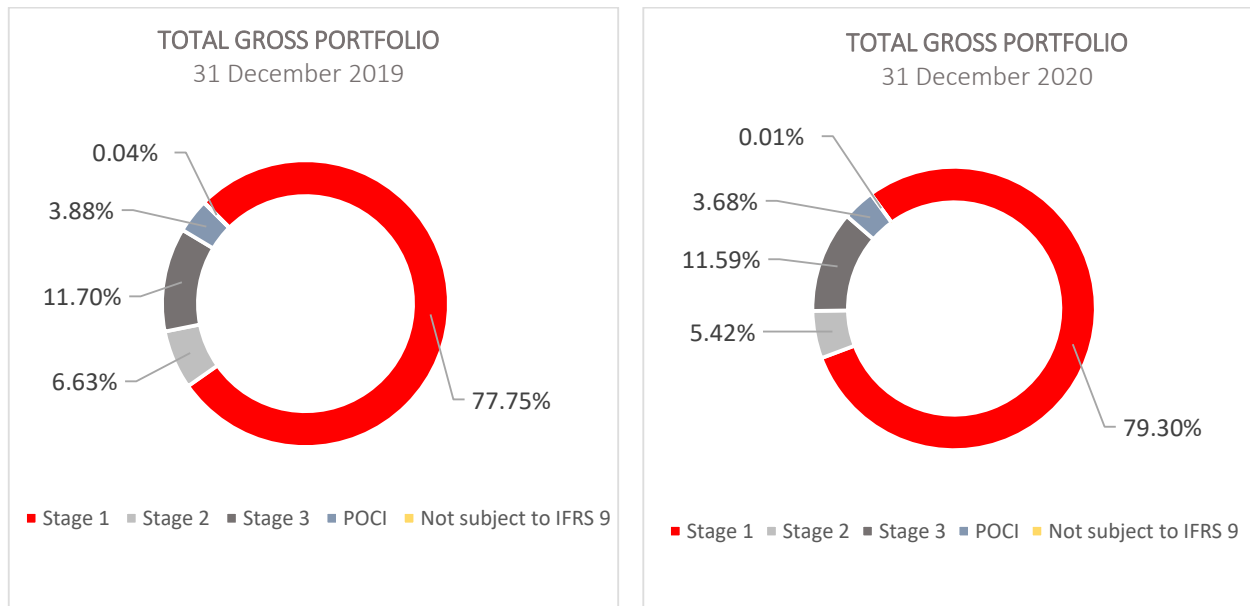
Operating expenses that include general and administrative expenses and other operating expenses stood at HRK 147.47 million, a decrease of 7.43 percent compared with the previous year. This decrease is a result of rationalisation of operations due to the COVID-19 pandemic.

At the end of 2020, total number of employees equalled 365 (31 December 2019: 372 employees).

Impairment gain/(loss) and provisions

In the reporting period, placement impairment net losses stood at HRK 182.17 million. In other words, due to the impact of the COVID – 19 pandemic, HBOR paid special attention to expected credit losses, which resulted in significant increase in the item „Impairment loss and provisions“.

The text to follow contains a breakdown of portfolio quality:



| | 2019 | | 2020 | |
|-----------------------------------|----------------------|---------------------|---------------------|---------------------|
| | In HRK millions | Breakdown (percent) | In HRK millions | Breakdown (percent) |
| Total gross portfolio | 34,024.75 | 100.00 | 37,401.32 | 100.00 |
| Of which: | | | | |
| - financial institutions | 13,186.68 | 38.76 | 13,728.62 | 36.71 |
| - direct | 20,838.07 | 61.24 | 23,672.70 | 63.29 |
| | | | | |
| Total provisions | 3,518.65 | 100.00 | 3,640.12 | 100.00 |
| Of which: | | | | |
| - financial institutions | 65.86 | 1.87 | 92.95 | 2.55 |
| - direct | 3,452.80 | 98.13 | 3,547.17 | 97.45 |
| | | | | |
| Provisions/gross portfolio | 10.34 percent | - | 9.73 percent | |

Significant changes in financial position

Total assets of HBOR as at 31 December 2020 amounted to HRK 28,680.36 million, an increase of 8.45 percent compared with 2019, due to significant withdrawal of borrowings from special financial institutions and a loan with the Ministry of Finance.

Cash on hand and deposits with other banks

At the end of 2020, cash on hand and deposits with other banks amounted to HRK 1,660.50 million representing 5.79 percent of total assets, an increase of 15.72 percent compared with the previous year as a result of withdrawal of borrowings and the reallocation of liquidity reserve funds.

Loans to financial institutions and other customers

Total net loans rose by 2.12 percent on the previous year and stood at HRK 23,638.76 million at the end of 2020 representing 82.42 percent of total assets.

Total gross loans amounted to HRK 27,197.29 million, an increase of 2.36 percent compared with the previous year. Gross loans to other customers increased by 7.07 percent compared with the beginning of the year, mostly as a result of disbursements of loans for public sector investments, financial restructuring and loans under COVID-19 measures. Gross loans to financial institutions decreased by 6.11 percent on the previous year as a result of loan prepayments.

At the end of 2020, the proportion between gross loans on-lent through financial institutions and direct placements stood at 32.82 percent: 67.18 percent.

Financial assets at fair value through profit or loss

Loans at fair value (HBOR has determined that mezzanine loans are classified here), investments in investment funds, a part of equity instruments and derivative financial assets are classified to these assets. As at 31 December 2020, the total amount of these assets equalled HRK 191.76 million representing 0.67 percent of total assets.

Financial assets at fair value through other comprehensive income

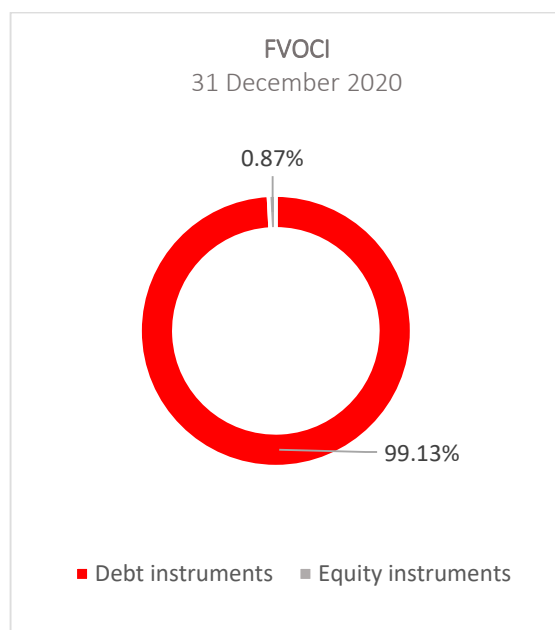
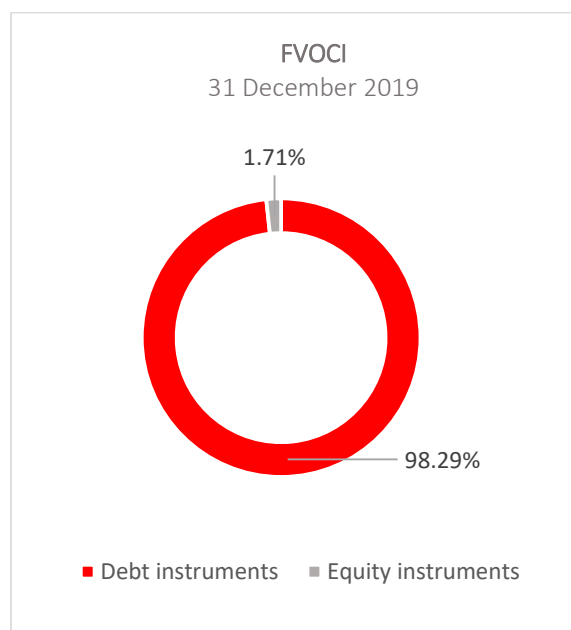
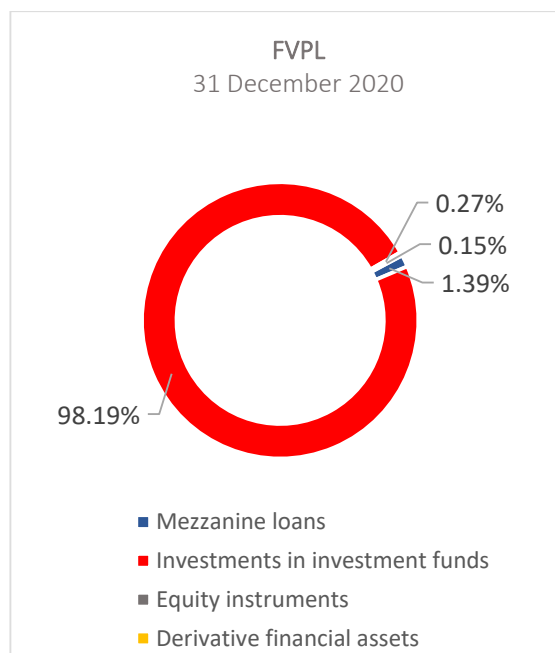
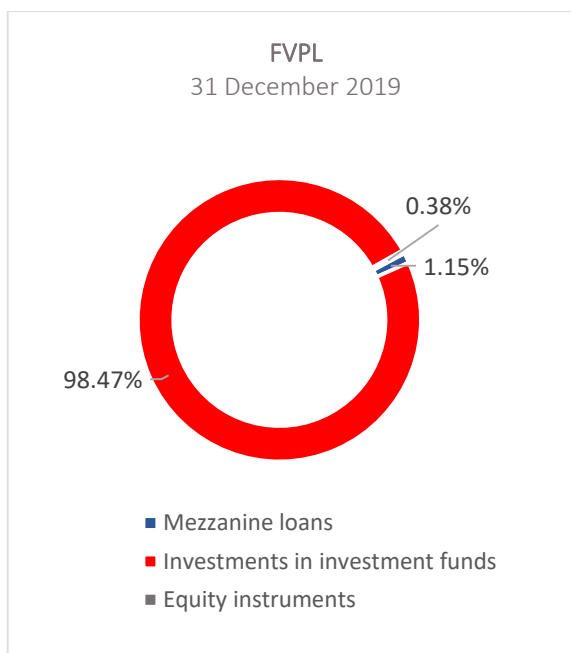
a) Debt securities

Bonds of the Republic of Croatia and of companies, treasury bills of the Ministry of Finance as part of liquidity reserve are classified to these assets. On the reporting date, they amounted to HRK 3,026.62 million, representing 10.55 percent of total assets. The impairment of these financial assets is calculated through the application of the model of expected credit losses in the manner that provisions are recognised in the accounts of other comprehensive income, thus not reducing the carrying amount of these financial assets in the statement on financial position. On the reporting date, they amounted to HRK 4.50 million in other reserves.

b) Equity instruments

Equity instruments (shares of companies) that HBOR does not intend to sell and to which irrevocable option of subsequent measurement of fair value through other comprehensive income without recycling is applied are classified to these assets, i.e. reserves recognised under other comprehensive income will never be transferred to the statement on profit or loss.

On the reporting date, these assets amounted to HRK 26.71 million, representing 0.09 percent of total assets.



Total liabilities

At the end of 2020, total liabilities amounted to HRK 18,325.74 million, which represents 63.90 percent of total liabilities and total equity. The major part of total liabilities consists of HBOR's foreign borrowings in the total amount of HRK 16,863.94 million.

Borrowings and bonds payable increased by 8.39 percent compared with the beginning of the year, whereas changes in these liabilities are shown in the following table:

| | (HRK millions) |
|--|-----------------|
| - Draw-down of funds borrowed under previously contracted funds of special financial institutions and a newly contracted loan with the Ministry of Finance | 4,994.52 |
| - Repayments of borrowings and bonds payable | (3,799.15) |
| - Foreign exchange gains or losses | 154.72 |
| - Other calculations * | (44.89) |
| Total changes | 1,305.20 |

* Other calculations relate to the changes in discount, amount of interest not due and deferred fees.

In 2020, HBOR continued to raise special-purpose funds as follows:

- on 26 June 2020 – concluded a loan agreement with the Ministry of Finance in the amount of up to HRK 3.0 billion,
- on 1 October 2020 – Finance Contract concluded with the European Investment Bank in the amount of EUR 100 million for favourable financing of SMEs and MidCaps affected by the COVID-19 pandemic,
- on 19 November 2020 – second Finance Contract concluded with the European Investment Bank in the amount of EUR 142.5 million intended for favourable financing of small and medium-sized enterprises.

On 8 May 2020, HBOR made a payment under long-term securities issued in the amount of EUR 1,203.21 million, interest included (EUR 159.00 million, interest included).

Total equity

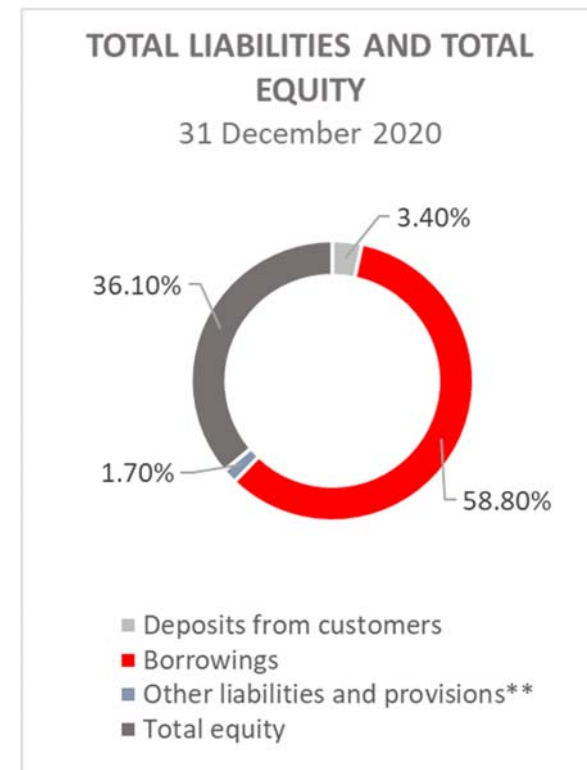
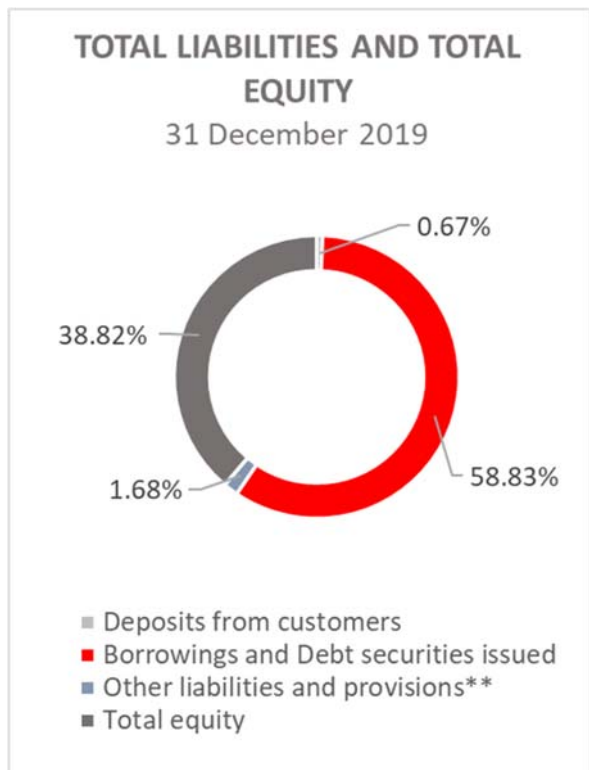
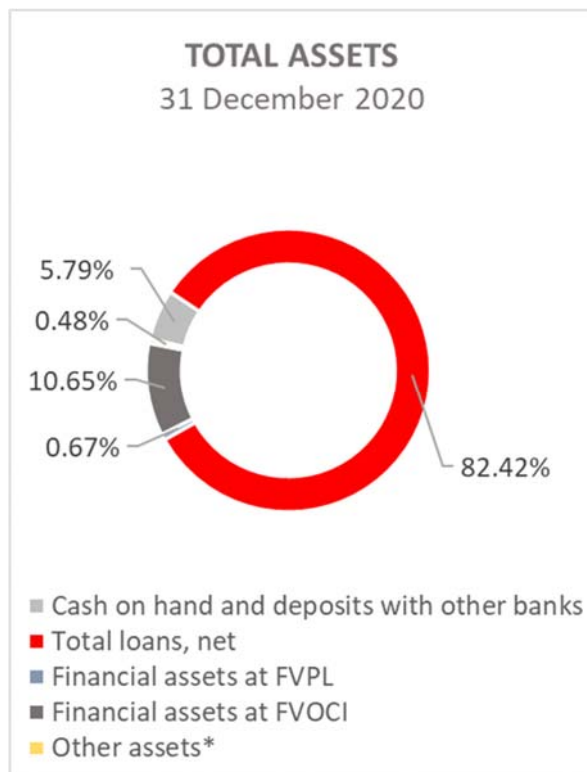
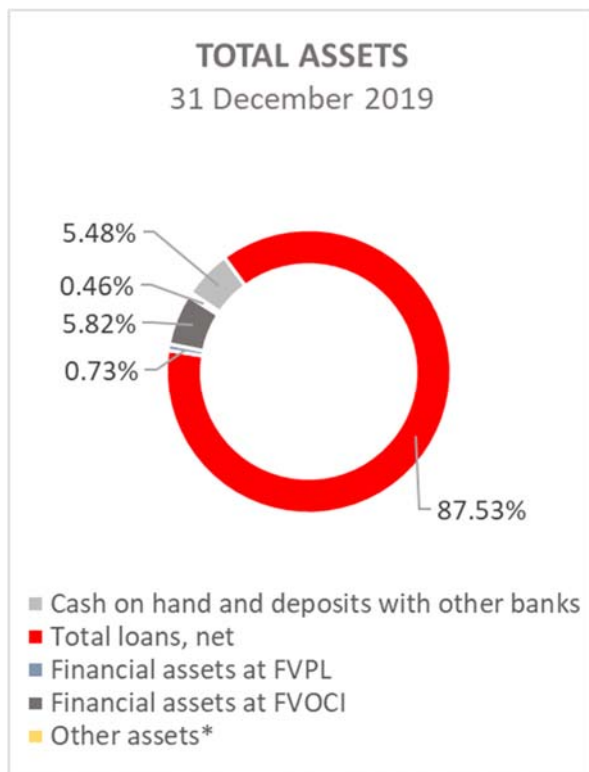
Total equity amounted to HRK 10,354.62 million, representing 36.10 percent of total liabilities and total equity.

Total equity of HBOR is comprised of the founder's capital contributed from the budget of the Republic of Croatia, retained earnings from the profits generated in the previous years, other reserves, guarantee fund and profits for the current period.

In the reporting period, the amount of HRK 25.00 million was contributed from the budget of the Republic of Croatia into the founder's capital. At the end of 2020, the total amount of capital contributed from the budget of the Republic of Croatia stood at HRK 6,708.00 million, and the remaining amount to be

contributed to the founder's capital up to the total amount of HRK 7,000.00 million set by the HBOR Act is HRK 292.00 million.

Pursuant to the provisions of the HBOR Act, the entire profits of the Bank generated in the reporting period are allocated to the reserves.



* Investments in subsidiaries, Property, plant and equipment and intangible assets, Foreclosed assets and Other assets.

** Provisioning includes provisioning for guarantees, commitments and other liabilities.

CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Annual financial statements for 2020

Zagreb, March 2021

Contents

| | |
|--|---------|
| Responsibilities of the Management and Supervisory Board for the preparation and approval of the annual report | 62 |
| Independent Joint Auditor's Report to the owner of Croatian Bank for Reconstruction and Development | 63 |
| Consolidated Financial Statements of the Group: | 70 |
| Income Statement | 70 |
| Statement of Profit or Loss and Other Comprehensive Income | 71 |
| Statement of Financial Position | 72 |
| Statement of Cash Flows | 73 |
| Statement of Changes in Equity | 74 |
| Separate Financial Statements of the Bank: | 75 |
| Income Statement | 75 |
| Statement of Profit or Loss and Other Comprehensive Income | 76 |
| Statement of Financial Position | 77 |
| Statement of Cash Flows | 78 |
| Statement of Changes in Equity | 79 |
| Notes to the Financial Statements which include significant accounting policies and other explanations | 80-227 |
| Appendix - Financial Performance of the HKO Group | 228-231 |

Responsibilities of the Management and Supervisory Boards for the preparation and approval of the annual report

The Management Board of the Croatian Bank for Reconstruction and Development (“HBOR” or “the Bank”) is required to prepare separate and consolidated financial statements for each financial year which give a true and fair view of the financial position of the Bank and Group of the Croatian Bank for Reconstruction and Development (“the Group”) and of the results of their operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time.

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 judgments 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 submission of its Annual Report to the Supervisory Board, after which the Supervisory Board submits it for approval to the Parliament of the Republic of Croatia.

The separate and consolidated financial statements set out on pages 70 to 231 were authorised by the Management Board on 25 March 2021 for issue to the Supervisory Board and are signed below to signify this.

The Management Board is also responsible for the preparation and content of the Management Report and Statement on the Code of Corporate Governance Application as required by the Croatian Accounting Law, and other information (together “other information”). The Management Report presented on pages 4 to 6, Statement on the Code of Corporate Governance Application presented on pages 7 to 10 and other information presented on pages 11 to 59 were approved by the Management Board on 25 March 2021.

Signed on behalf of the 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, 25 March 2021

Independent Joint Auditor’s Report to the owner of Croatian Bank for Reconstruction and Development

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of Croatian Bank for Reconstruction and Development (“the Bank”) and the consolidated financial statements of the Bank and its subsidiary (“the Group”), which comprise the separate and consolidated statements of financial position of the Bank and the Group, respectively, as at 31 December 2020, and their respective separate and consolidated income statements, statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as “the financial statements”).

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Bank and consolidated financial position of the Group as at 31 December 2020 and of their respective unconsolidated and consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (“EU IFRS”).

Basis for Opinion

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

Independent Joint Auditor’s Report to the owner of Croatian Bank for Reconstruction and Development (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters

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

Impairment of loans to other customers

As at 31 December 2020, in the financial statements of the Bank and the Group, gross loans to other customers: HRK 18,272 million, related impairment allowance: HRK 3,476 million and impairment loss recognised in the income statement for the year then ended: HRK 70 million (31 December 2019: gross loans to other customers: HRK 17,065 million, impairment allowance: HRK 3,365 million; release of impairment loss recognised in the income statement for the year ended 31 December 2019: HRK 33 million).

Please refer to note 1.3. *Impact of COVID-19 on HBOR's business and implementation of proposed measures to assist the economy in the coronavirus outbreak*, 4 *Summary of significant accounting policies*, note 10 *Impairment loss and provisions*, note 15 *Loans to other customers*, and credit risk section of the note 34 *Risk management*.

Key audit matter

Loss allowances represent the Management Board’s best estimate of the expected credit losses (“ECLs”) within loans to other customers at the reporting date. We focused on this area as the determination of loss allowances requires a significant judgment over the amounts of any such impairment.

Impairment allowances for performing exposures (Stage 1 and Stage 2) and non-performing exposures (Stage 3) up to HRK 1.5 million individually are determined by modelling techniques (“collective impairment allowance”). These collective impairment models rely on a number of parameters such as the probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account historical experience, identification of exposures with a significant increase in credit risk, forward-looking information and management judgment.

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

How our audit addressed the matter

Our audit procedures in this area, performed with the assistance from our own financial instruments and information technology (IT) specialists, included, among others:

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

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

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter

As discussed in Note 1.3., to mitigate the impact of the COVID-19 outbreak, the Government of Croatia launched aid initiatives for the hardest hit sectors and customers. The measures have an effect on the measurement of the ECLs in the current year, which had to be considered by us as part of our audit.

For the above reasons, impairment of loans to other customers was determined by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered this area to be our key audit matter.

How our audit addressed the matter

- Selecting a sample of individual exposures, with focus on those from the economic sectors most affected by the COVID-19 outbreak, exposures with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk, such as watchlisted, restructured or rescheduled exposures, loans to clients operating in higher risk industries, non-performing exposures with low provision coverage and loans with significant change in the provision coverage;
- For the sample selected, critically assessing, by reference to the underlying documentation (loan files) and through inquiries of the Bank's and the Group's loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2020;

For loss allowance calculated individually:

- For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Bank's and the Group's estimates of future cash flows used in the impairment calculation, such as discount rates, collateral values and realization period by reference to publicly available resources and historical experience. We sought the Management Board's explanations for any material discrepancies identified;

Independent Joint Auditor’s Report to the owner of Croatian Bank for Reconstruction and Development (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

| Key audit matter | How our audit addressed the matter |
|------------------|--|
| | <p>For loss allowances calculated on a collective basis:</p> <ul style="list-style-type: none"> ● Assessing whether the definition of default and the relevant staging criteria were appropriate and consistently applied and the effects of the market disruption resulting from the COVID-19 pandemic properly considered; ● Obtaining the relevant forward-looking information and macroeconomic forecasts used in the Bank’s and the Group’s ECL estimate. Independently assessing the information by reference to publicly available sources, while also considering the effects of the market disruption resulting from the COVID-19 pandemic; ● For a sample of exposures, challenging key model parameters, as follows: <ul style="list-style-type: none"> ○ EAD – by tracing underlying data on exposures to loan contracts; ○ LGD and PD - by reference to the Bank’s historical experience, adjusted where relevant for the expected changes in economic conditions as derived from the forward-looking information; ● Obtaining Bank’s and the Group’s results of back testing performed over the PD and LGD parameters used in prior periods and seeking the Management Board’s explanations for any material discrepancies identified. <p>For loss allowances in totality:</p> <ul style="list-style-type: none"> ● Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposures in total gross exposures, and the non-performing loans provision coverage; ● Examining whether the Bank’s and the Group’s loan impairment and credit risk-related disclosures in the financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework. |

This version of the Joint Auditor’s Report is a translation from the original, which was prepared in 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 annual report and financial statements takes precedence over translation.

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

Report on the Audit of the Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprises the Management Report, Corporate Governance Statement and other information included in the Annual Report of the Bank and the Group, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act,
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report and Corporate Governance Statement for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Articles 21 and 24 of the Accounting Act, respectively;
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement. We have nothing to report in this respect.

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with EU IFRS, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank and/or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on the Audit of the Financial Statements (continued)

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

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

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

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

Report on Other Legal and Regulatory Requirements

KPMG Croatia d.o.o. za reviziju was appointed by those charged with governance on 14 March 2018, while BDO Croatia was appointed on 30 June 2020 to audit the financial statements of the Bank and the Group for the year ended 31 December 2020. Total uninterrupted period of engagement of KPMG Croatia d.o.o. za reviziju is 3 years. The total uninterrupted period of engagement of BDO Croatia d.o.o. is 2 years.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank dated 31 March 2021;
- for the period to which our statutory audit relates, we have not provided any non-audit services (NASs), hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

KPMG Croatia d.o.o. za reviziju

Croatian Certified Auditors
Eurotower, 17th floor, Ivana Lučića 2a
10000 Zagreb
Croatia

Katarina Kecko
Member of the Management Board, Croatian
Certified Auditor

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb

BDO Croatia d.o.o

Croatian Certified Auditors
Trg J. F. Kennedy 6b
10000 Zagreb
Croatia

Ivan Čajko
Member of the Management Board, Croatian Certified
Auditor

BDO CROATIA
BDO Croatia d.o.o.
za pružanje revizorskih, konzalting
i računovodstvenih usluga
Zagreb, J. F. Kennedy 6/b 2

31 March 2021

Consolidated Financial Statements of the Group
Income Statement
for the year ended 31 December
(All amounts are expressed in HRK thousand)

| | Notes | 2020 HRK '000 | 2019 HRK '000 |
|--|-------|------------------|------------------|
| Interest income calculated using the effective interest method | 5 | 622,481 | 665,903 |
| Interest expense | 6 | (244,212) | (311,602) |
| Net interest income | | 378,269 | 354,301 |
| Fee and commission income | 7 | 27,823 | 28,252 |
| Fee and commission expense | 7 | (1,764) | (2,774) |
| Net fee and commission income | | 26,059 | 25,478 |
| Net (losses)/gains on financial operations | 8 | (3,112) | 5,202 |
| Other income | | 19,084 | 14,151 |
| | | 420,300 | 399,132 |
| Employee expenses | 9 a) | (97,018) | (95,078) |
| Depreciation and amortization | 9 b) | (9,423) | (8,517) |
| Other expenses | 9 c) | (49,605) | (67,677) |
| Impairment loss and provisions | 10 | (182,264) | (73,762) |
| Profit before income tax | | 81,990 | 154,098 |
| Income tax | 11 | (459) | 200 |
| Profit for the year | | 81,531 | 154,298 |
| Attributable to: | | | |
| Owner of the Bank | | 81,531 | 154,298 |

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

Consolidated Financial Statements of the Group
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December

(All amounts are expressed in HRK thousand)

| | 2020 | 2019 |
|--|-----------------|----------------|
| | HRK '000 | HRK '000 |
| Profit for the year | 81,531 | 154,298 |
| Other comprehensive income | | |
| Items that are not transferred subsequently to profit or loss: | | |
| Unrealized actuarial (losses)/gains | (3,666) | 56 |
| Total items that are not transferred subsequently to profit or loss | (3,666) | 56 |
| Items that may be reclassified subsequently to profit or loss: | | |
| Net changes in financial assets at fair value through other comprehensive income | (14,289) | 9,290 |
| Net foreign exchange on equity instruments | 333 | 87 |
| Deferred tax – other comprehensive income | 120 | (297) |
| Total items that may be reclassified subsequently to profit or loss | (13,836) | 9,080 |
| Other comprehensive income after income tax | (17,502) | 9,136 |
| Total comprehensive income after income tax | 64,029 | 163,434 |
| Attributable to: | | |
| Owner of the Bank | 64,029 | 163,434 |

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

Consolidated Financial Statements of the Group
Statement of Financial Position
as of 31 December

(All amounts are expressed in HRK thousand)

| | Notes | 2020 HRK '000 | 2019 HRK '000 |
|---|-------|-------------------|-------------------|
| Assets | | | |
| Cash on hand and current accounts with banks | 12 | 1,659,116 | 884,407 |
| Deposits with other banks | 13 | 7,337 | 553,470 |
| Loans to financial institutions | 14 | 8,842,580 | 9,447,706 |
| Loans to other customers | 15 | 14,796,179 | 13,699,634 |
| Financial assets at fair value through profit or loss | 16 | 191,756 | 203,833 |
| Financial assets at fair value through other comprehensive income | 17 | 3,105,764 | 1,578,810 |
| Debt instruments at amortised cost | 18 | - | 457 |
| Investments in associates | 20 | - | - |
| Property, plant and equipment and intangible assets | 21 | 46,448 | 48,281 |
| Foreclosed assets | 22 | 25,222 | 24,198 |
| Other assets | 23 | 32,140 | 29,815 |
| Total assets | | 28,706,542 | 26,470,611 |
| Liabilities | | | |
| Deposits from customers | 24 | 974,393 | 176,769 |
| Borrowings | 25 | 16,863,935 | 14,400,453 |
| Debt securities issued | 26 | - | 1,158,291 |
| Provisions for guarantees, commitments and other liabilities | 27 | 108,056 | 120,780 |
| Other liabilities | 28 | 396,393 | 339,737 |
| Total liabilities | | 18,342,777 | 16,196,030 |
| Equity | | | |
| Founder's capital | 29 | 7,134,632 | 7,109,632 |
| Retained earnings and reserves | | 3,076,153 | 2,921,855 |
| Other reserves | | 59,108 | 76,610 |
| Profit for the year | | 81,531 | 154,298 |
| Guarantee fund | 30 | 12,341 | 12,186 |
| Total equity | | 10,363,765 | 10,274,581 |
| Total liabilities and total equity | | 28,706,542 | 26,470,611 |

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

Consolidated Financial Statements of the Group
Statement of Cash Flows
for the year ended 31 December

(All amounts are expressed in HRK thousand)

| | 2020 | 2019 |
|--|---------------------|--------------------|
| Notes | HRK '000 | HRK '000 |
| Operating activities | | |
| Profit before income tax | 81,990 | 154,098 |
| <i>Adjustments to reconcile to net cash from and used in operating activities:</i> | | |
| Depreciation and amortization | 9,423 | 8,517 |
| Income tax | (459) | 200 |
| Impairment loss and provisions | 182,264 | 73,762 |
| Accrued interest | (264,094) | (37,112) |
| Deferred fees | (6,766) | 331 |
| Net gains from trading with derivative financial instruments | (4,773) | - |
| Other changes in assets at fair value | (4,029) | (5,592) |
| <i>Operating (loss)/profit before working capital changes</i> | <i>(6,444)</i> | <i>194,204</i> |
| <i>Changes in operating assets and liabilities:</i> | | |
| Net increase in deposits with other banks, before impairment | 547,577 | (291,554) |
| Net decrease in loans to financial institutions, before impairment | 593,314 | 843,474 |
| Net increase in loans to other customers, before loss impairment | (1,031,156) | (1,481,521) |
| Decrease of discount in debt securities issued | 1,521 | 3,812 |
| Net decrease/(increase) in foreclosed assets | (1,606) | 352 |
| Net decrease in other assets, before impairment | (5,720) | (11,154) |
| Net increase/(decrease) in deposits from banks and companies | 797,624 | (252,327) |
| Net increase/(decrease) in other liabilities, before provisions | 56,598 | (42,815) |
| Net cash provided from/(used in) operating activities | 951,708 | (1,037,529) |
| Investment activities | | |
| Purchase of financial assets at fair value through profit or loss | (27,001) | (2,981) |
| Sale of financial assets at fair value through profit or loss | 22,847 | 143,549 |
| Purchase of financial assets at fair value through other comprehensive income | (2,004,294) | (512,904) |
| Sale of financial assets at fair value through other comprehensive income | 464,395 | 1,771,593 |
| Sale of debt instruments at amortized cost | 448 | - |
| Investments in subsidiaries – sales and write-offs | 4,356 | 5,500 |
| Net purchase of property, plant and equipment and intangible assets | (5,479) | (4,229) |
| Net cash (used in)/provided from investment activities | (1,544,728) | 1,400,528 |
| Financing activities | | |
| Increase in founder's capital | 25,000 | 50,000 |
| Increase in borrowings – withdrawn funds | 4,994,515 | 3,036,226 |
| Decrease in borrowings – repayments of principal | (2,664,047) | (3,581,195) |
| Decrease in bonds payable - repayment | (1,135,104) | - |
| Other | (5,180) | 175 |
| Net cash used in financing activities | 1,215,184 | (494,794) |
| Effect of foreign currency to cash and cash equivalents | | |
| Net foreign exchange | 153,714 | 70,600 |
| Net effect | 153,714 | 70,600 |
| Net decrease in cash and cash equivalents | 775,878 | (61,195) |
| Cash and cash equivalents balance as of 1 January, before impairment | 884,890 | 946,085 |
| Net increase /(decrease) in cash and cash equivalents | 775,878 | (61,195) |
| Cash and cash equivalents balance as of 31 December before impairment | 12 1,660,768 | 884,890 |
| Additional note - Operational cash flows | | |
| Interest paid | 290,702 | 307,480 |
| Interest received | 346,630 | 549,245 |

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

Consolidated Financial Statements of the Group
Statement of Changes in Equity
for the year ended 31 December

(All amounts are expressed in HRK thousand)

| | Founder's capital HRK '000 | Retained earnings and reserves HRK '000 | Other reserves HRK '000 | Profit for the year HRK '000 | Guarantee fund HRK '000 | Total HRK '000 |
|--|----------------------------------|---|-------------------------------|------------------------------------|-------------------------------|-------------------|
| Balance as of 1 January 2019 | 7,059,632 | 2,717,118 | 67,474 | 204,737 | 12,146 | 10,061,107 |
| Profit for the year | - | - | - | 154,298 | - | 154,298 |
| Other comprehensive income | - | - | 9,136 | - | - | 9,136 |
| Total comprehensive income | - | - | 9,136 | 154,298 | - | 163,434 |
| Net foreign exchange - Guarantee fund | - | - | - | - | 40 | 40 |
| Capital paid-in from the State Budget | 50,000 | - | - | - | - | 50,000 |
| Transfer of profit 2018 to retained earnings | - | 204,737 | - | (204,737) | - | - |
| Balance as of 31 December 2019 | 7,109,632 | 2,921,855 | 76,610 | 154,298 | 12,186 | 10,274,581 |
| Profit for the year | - | - | - | 81,531 | - | 81,531 |
| Other comprehensive income | - | - | (17,502) | - | - | (17,502) |
| Total comprehensive income | - | - | (17,502) | 81,531 | - | 64,029 |
| Net foreign exchange - Guarantee fund | - | - | - | - | 155 | 155 |
| Capital paid-in from the State Budget | 25,000 | - | - | - | - | 25,000 |
| Transfer of profit 2019 to retained earnings | - | 154,298 | - | (154,298) | - | - |
| Balance as of 31 December 2020 | 7,134,632 | 3,076,153 | 59,108 | 81,531 | 12,341 | 10,363,765 |

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

Separate Financial Statements of the Bank
Income Statement
for the year ended 31 December
(All amounts are expressed in HRK thousand)

| | Notes | 2020 HRK '000 | 2019 HRK '000 |
|--|-------|------------------|------------------|
| Interest income calculated using the effective interest method | 5 | 621,342 | 664,586 |
| Interest expense | 6 | (244,191) | (311,558) |
| Net interest income | | 377,151 | 353,028 |
| Fee and commission income | 7 | 24,733 | 25,267 |
| Fee and commission expense | 7 | (1,764) | (2,774) |
| Net fee and commission income | | 22,969 | 22,493 |
| Net (losses)/gains on financial operations | 8 | (3,034) | 4,743 |
| Other income | | 11,896 | 8,090 |
| | | 408,982 | 388,354 |
| Employee expenses | 9a) | (92,579) | (91,317) |
| Depreciation and amortization | 9 b) | (9,101) | (8,164) |
| Other expenses | 9 c) | (45,794) | (59,827) |
| Impairment loss and provisions | 10 | (182,169) | (73,996) |
| Profit before income tax | | 79,339 | 155,050 |
| Income tax | 11 | - | - |
| Profit for the year | | 79,339 | 155,050 |
| Attributable to: | | | |
| Owner of the Bank | | 79,339 | 155,050 |

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

Separate Financial Statements of the Bank
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December

(All amounts are expressed in HRK thousand)

| | 2020 HRK '000 | 2019 HRK '000 |
|--|------------------|------------------|
| Profit for the year | 79,339 | 155,050 |
| Other comprehensive income | | |
| Items that are not transferred subsequently to profit or loss: | | |
| Unrealized actuarial (losses)/gains | (3,666) | 56 |
| Total items that are not transferred subsequently to profit or loss | (3,666) | 56 |
| Items that may be reclassified subsequently to profit or loss: | | |
| Net changes in financial assets at fair value through other comprehensive income | (13,631) | 7,849 |
| Net foreign exchange on equity instruments | 333 | 87 |
| Total items that may be reclassified subsequently to profit or loss | (13,298) | 7,936 |
| Other comprehensive income after income tax | (16,964) | 7,992 |
| Total comprehensive income after income tax | 62,375 | 163,042 |
| Attributable to: | | |
| Owner of the Bank | 62,375 | 163,042 |

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

Separate Financial Statements of the Bank
Statement of Financial Position
as of 31 December

(All amounts are expressed in HRK thousand)

| | | 2020 | 2019 |
|---|-------|-------------------|-------------------|
| | Notes | HRK '000 | HRK '000 |
| Assets | | | |
| Cash on hand and current accounts with banks | 12 | 1,653,162 | 881,487 |
| Deposits with other banks | 13 | 7,337 | 553,470 |
| Loans to financial institutions | 14 | 8,842,580 | 9,447,706 |
| Loans to other customers | 15 | 14,796,179 | 13,699,634 |
| Financial assets at fair value through profit or loss | 16 | 191,756 | 193,994 |
| Financial assets at fair value through other comprehensive income | 17 | 3,053,326 | 1,538,641 |
| Investments in subsidiaries | 19 | 36,124 | 36,124 |
| Investments in associates | 20 | - | - |
| Property, plant and equipment and intangible assets | 21 | 45,592 | 47,309 |
| Foreclosed assets | 22 | 25,222 | 24,198 |
| Other assets | 23 | 29,082 | 23,922 |
| Total assets | | 28,680,360 | 26,446,485 |
| Liabilities | | | |
| Deposits from customers | 24 | 974,393 | 176,769 |
| Borrowings | 25 | 16,863,935 | 14,400,453 |
| Debt securities issued | 26 | - | 1,158,291 |
| Provisions for guarantees, commitments and other liabilities | 27 | 107,796 | 120,631 |
| Other liabilities | 28 | 379,612 | 323,247 |
| Total liabilities | | 18,325,736 | 16,179,391 |
| Equity | | | |
| Founder's capital | 29 | 7,134,632 | 7,109,632 |
| Retained earnings and reserves | | 3,074,406 | 2,919,356 |
| Other reserves | | 53,906 | 70,870 |
| Profit for the year | | 79,339 | 155,050 |
| Guarantee fund | 30 | 12,341 | 12,186 |
| Total equity | | 10,354,624 | 10,267,094 |
| Total liabilities and total equity | | 28,680,360 | 26,446,485 |

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

Separate Financial Statements of the Bank
Statement of Cash Flows
for the year ended 31 December
(All amounts are expressed in HRK thousand)

| | Notes | 2020 HRK '000 | 2019 HRK '000 |
|--|-----------|--------------------|--------------------|
| Operating activities | | | |
| Profit before income tax | | 79,339 | 155,050 |
| <i>Adjustments to reconcile to net cash from and used in operating activities:</i> | | | |
| Depreciation and amortization | | 9,101 | 8,164 |
| Impairment loss and provisions | | 182,169 | 73,996 |
| Accrued interest | | (264,129) | (37,120) |
| Deferred fees | | (6,766) | 331 |
| Net gains from trading with derivative financial instruments | | (4,773) | - |
| Other changes in assets at fair value | | (4,029) | (5,402) |
| <i>Operating (loss)/profit before working capital changes</i> | | <i>(9,088)</i> | <i>195,019</i> |
| <i>Changes in operating assets and liabilities:</i> | | | |
| Net decrease/(increase) in deposits with other banks, before impairment | | 547,577 | (291,554) |
| Net decrease in loans to financial institutions, before impairment | | 593,314 | 843,474 |
| Net increase in loans to other customers, before impairment | | (1,031,156) | (1,481,521) |
| Decrease of discount in debt securities issued | | 1,411 | 3,812 |
| Net decrease/(increase) in foreclosed assets | | (1,606) | 352 |
| Net increase in other assets, before impairment | | (8,381) | (13,824) |
| Net increase/(decrease) in deposits from banks and companies | | 797,624 | (252,327) |
| Net increase/(decrease) in other liabilities, before provisions | | 56,365 | (42,667) |
| Net cash provided from/(used in) operating activities | | 946,060 | (1,039,236) |
| Investment activities | | | |
| Purchase of financial assets at fair value through profit or loss income | | (27,001) | (2,739) |
| Sale of financial assets at fair value through profit or loss | | 13,100 | 143,000 |
| Purchase of financial assets at fair value through other comprehensive income | | (1,987,783) | (511,652) |
| Sale of financial assets at fair value through other comprehensive income | | 461,048 | 1,771,593 |
| Investments in subsidiaries – sales and write-offs | | 4,356 | 5,500 |
| Net purchase of property, plant and equipment and intangible assets | | (5,273) | (2,968) |
| Net cash (used in)/provided from investment activities | | (1,541,553) | 1,402,734 |
| Financing activities | | | |
| Increase in founder's capital | | 25,000 | 50,000 |
| Increase in borrowings – withdrawn funds | | 4,994,515 | 3,036,226 |
| Decrease in borrowings – repayments of principle | | (2,664,047) | (3,581,195) |
| Decrease in bonds payable - repayment | | (1,135,104) | - |
| Other | | (5,963) | 78 |
| Net cash used in financing activities | | 1,214,401 | (494,891) |
| Effect of foreign currency to cash and cash equivalents | | | |
| Net foreign exchange | | 153,931 | 70,637 |
| Net effect | | 153,931 | 70,637 |
| Net increase/decrease in cash and cash equivalents | | 772,839 | (60,756) |
| Cash and cash equivalents balance as of 1 January, before impairment | | 881,966 | 942,722 |
| Net increase/(decrease) in cash and cash equivalents | | 772,839 | (60,756) |
| Cash and cash equivalents balance as at 31 December, before impairment | 12 | 1,654,805 | 881,966 |
| Additional note – operating activities | | | |
| Interest paid | | 290,702 | 307,480 |
| Interest received | | 345,342 | 547,769 |

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

Separate Financial Statements of the Bank
Statement of Changes in Equity
for the year ended 31 December

(All amounts are expressed in HRK thousand)

| | Founder's capital HRK '000 | Retained earnings and reserves HRK '000 | Other reserves HRK '000 | Profit for the year HRK '000 | Guarantee fund HRK '000 | Total HRK '000 |
|--|----------------------------------|--|-------------------------------|------------------------------------|-------------------------------|-------------------|
| Balance as at 1 January 2019 | 7,059,632 | 2,715,028 | 62,878 | 204,328 | 12,146 | 10,054,012 |
| Profit for the year | - | - | - | 155,050 | - | 155,050 |
| Other comprehensive income | - | - | 7,992 | - | - | 7,992 |
| Total comprehensive income | - | - | 7,992 | 155,050 | - | 163,042 |
| Net foreign exchange - Guarantee fund | - | - | - | - | 40 | 40 |
| Capital paid-in from the State Budget | 50,000 | - | - | - | - | 50,000 |
| Transfer of profit 2018 to retained earnings | - | 204,328 | - | (204,328) | - | - |
| Balance as at 31 December 2019 | 7,109,632 | 2,919,356 | 70,870 | 155,050 | 12,186 | 10,267,094 |
| Profit for the year | - | - | - | 79,339 | - | 79,339 |
| Other comprehensive income | - | - | (16,964) | - | - | (16,964) |
| Total comprehensive income | - | - | (16,964) | 79,339 | - | 62,375 |
| Net foreign exchange - Guarantee fund | - | - | - | - | 155 | 155 |
| Capital paid-in from the State Budget | 25,000 | - | - | - | - | 25,000 |
| Transfer of profit 2019 to retained earnings | - | 155,050 | - | (155,050) | - | - |
| Balance as at 31 December 2020 | 7,134,632 | 3,074,406 | 53,906 | 79,339 | 12,341 | 10,354,624 |

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 year ended 31 December 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 December 2020, the Group had 386 employees (31 December 2019: 392 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 year ended 31 December 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,
- Tomislav Ćorić, DSc, Minister of the Economy and Sustainable Development – ex officio Vice President of the Supervisory Board,
- Nikolina Brnjac, DSc, Minister of Tourism and Sports,
- Darko Horvat, Minister of Physical Planning, Construction and State Assets,
- Nataša Tramišak, Minister of Regional Development and EU Funds,
- Marija Vučković, MSc, Minister of Agriculture,
- Luka Burić, DSc, Chairman of the Croatian Chamber of Economy – ex officio Member of the Supervisory Board,
- Žarko Tušek, member of Parliament,
- Predrag Štromar, member of Parliament,
- Siniša Hajdaš Dončić, DSc, member of 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 December 2020, HBOR had 365 employees (31 December 2019: 372 employees).

Audit Committee

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

- Prof. DSc. Lajoš Žager, Faculty of Economics and Business of the University of Zagreb, Chairman of the Audit Committee,
- Aurora Volarević, Vice President Corporate Affairs at Infobip, Vice Chairman of the Audit Committee,
- Predrag Štromar, Chairman of the Physical Planning and Construction Committee of the Croatian Parliament, member of the Audit Committee.

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

for the year ended 31 December 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, particularly since mid-March 2020, of the COVID-19 pandemic in most parts of the world, have created significant immediate challenges and risks and have undoubtedly affected economic activity in the Republic of Croatia, including the HBOR Group.

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, has an extremely important role and has been 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 and directly. With these loans, HBOR provides support to economic entities through favourable loan terms and conditions, i.e. lower interest rates, which is made possible through the use of interest rate subsidies of the Ministry of Finance, the Ministry of Tourism and Sports and the Ministry of Agriculture,
- 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 year ended 31 December 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)

In the reporting period, the HBOR Group and HBOR focused on key risks arising from financial instruments, and in particular on estimating the amounts arising from expected credit losses. Consequently, the changed environment affected the business results of the HBOR Group and HBOR in 2020 due to a higher level of provisions for possible credit losses.

Although the long-term impact of the pandemic on the Group's operations is currently difficult to quantify, the HBOR Group has a high level of capitalisation and liquidity and an appropriate level of provisions for exposures. Therefore, the Management Board of HBOR estimates that the continuity of business of the HBOR Group and HBOR is beyond doubt.

In order to mitigate the effects of COVID 19, the EBA has made certain recommendations to allow for greater flexibility in the implementation of accounting principles. HBOR took into account the above recommendations in the preparation of these financial statements. The impact of the COVID-19 effects on the Bank's and the Group's results is presented in the following notes:

- 10. Impairment loss and provisions;
- 34.3 Credit risk;
- 34.3.3 Analysis of input for ECL model within the framework of impact of macroeconomic conditions on PD;
- 34.3.2.5 Significant increase in credit risk and
- 34.4 Liquidity risk.

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. The Management Board of the subsidiary companies is taking the necessary measures to reduce the effects of the pandemic.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

2. Basis of Preparation of the Financial Statements

2.1. Statement of compliance

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. They were authorised for issue by the Bank's Management Board on 25 March 2021.

2.2. Measurement

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

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

2.3. Functional and presentation currency

These financial statements of the Bank and the Group are presented in Croatian Kuna (HRK), which is the Bank's 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding (Note 4.1.G.ii.).
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL
- determination of control over investees (Note 4.1.A.).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

3. Use of judgements and estimates (continued)

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2020 is included in the following notes.

- impairment of financial instruments: determination of inputs into the ECL measurement model, incorporation of forward-looking information (Note 4.1.G.ix.).
- impairment of financial instruments: key assumptions used in estimating recoverable cash flows (Note 4.1.G.ix.).
- significant accounting estimates and judgements related to the application of IFRS 9 are described in Note (Note 4.1.G.).

4. Summary of significant accounting policies

4.1. Significant accounting policies

Principal accounting policies applied when preparing these financial statements are summarized below.

The Group has consistently applied the following accounting policies to all periods presented in these separate and consolidated financial statements.

A. Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

A. Basis of consolidation (continued)

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Associates

Associates are entities over which the Group has significant influence but no control. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition. In the Bank's separate financial statements investments in associates are accounted at cost less impairment.

The Group's share of its associates' post-acquisition gains or losses is recognised in the income statement and its share of their post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or has made payments on behalf of the associate.

Dividends received from associates are treated as a decrease of investment in the associate in the Group's consolidated statement of financial position and as dividend income in the Bank's separate income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

B. Foreign currency transactions and foreign currency clause

Assets and liabilities expressed in foreign currencies are converted into HRK at the exchange rates quoted by the Croatian National Bank at the reporting date or at the contract exchange rates. Income and expense arising from foreign currencies are converted at the exchange rate on the transaction date. The resulting foreign exchange gains and losses are recorded in profit or loss.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

B. Foreign currency transactions and foreign currency clause (continued)

The Bank has assets originated in HRK and linked to a foreign currency with a one-way currency clause. Due to this clause, the Bank has the option to revalue the asset using a foreign exchange rate, if beneficial for the Bank valid as of the date of maturity, compared to the foreign exchange rate valid as of the date of origination of asset.

Foreign currency differences, arising from the translation of the equity investments in respect of which an election has been made to present subsequent changes in fair value in other comprehensive income, are recognised in other comprehensive income. Amounts recognised in other comprehensive income are not transferred to the profit or loss, they are retained in other comprehensive income at the moment of derecognition.

The principal exchange rate set forth by the Croatian National Bank and used in the preparation of the financial statements at the reporting dates were as follows:

| | | |
|------------------|----------------------|----------------------|
| 31 December 2020 | 1 EUR = HRK 7.536898 | 1 USD = HRK 6.139039 |
| 31 December 2019 | 1 EUR = HRK 7.442580 | 1 USD = HRK 6.649911 |

C. Interest income and expense

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets ("POCI"), the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit loss. For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit loss.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

C. Interest income and expense (continued)

Amortised cost and gross carrying amount (continued)

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For the purpose of calculation of interest income for exposures allocated to stage 3 or for assets classified as purchased or originated credit-impaired financial assets, the concept of time value of money is used (unwinding). Unwinding, i.e. interest income for the mentioned exposures is calculated after the date of transfer of exposure to stage 3 or after the date of classification of assets as POCI and is recorded as provisions for the financial instrument with simultaneous decrease of interest income.

Fees constituting interest income, which are related to the generation of a placement and are accrued and collected at approval and placement of loan funds or during loan contract period, are deferred and recognised in the profit or loss using the effective interest rate method over the period to which they relate.

Interest income and expense are recognized in the profit or loss when earned or incurred. Interest income and expense are recognized in the profit or loss for all interest-bearing instruments on an accrual basis using the effective interest rate, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or on a shorter period, where appropriate. Interest income includes coupons earned on fixed income investments.

Loan origination fees, together with estimated related costs, are deferred and proportionally recognized as an adjustment to the effective yield on the loan over the term of loan.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

C. Interest income and expense (continued)

Calculation of interest income and expense (continued)

Notional interest is recognized on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value and are recognized in the profit or loss.

D. Fee and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see (C)). Other fee and commission income – fees income from companies for guarantees granted and other services rendered by the Group, together with commissions for managing funds for and on behalf of legal entities and fees for foreign and domestic payment transactions – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

Fee and commission income of non-interest income character (loan management fees for and on behalf of other parties, payment transaction fees, other fees of non-interest type) are recognized in the profit or loss as they incur.

E. Leases

(a) The Group as a lessee

When concluding a contract, the Group assesses whether it is a lease contract or whether an individual contract contains elements of a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In order to assess whether the contract conveys the right to control the use of an identified asset, the Group uses the definition of lease in IFRS 16.

The Group recognises a right-of-use asset and a lease liability upon lease commencement. The right-of-use asset is initially measured at cost, which includes the initial amount of the lease liability adjusted for any lease payments before or at the lease commencement plus any direct costs incurred and an estimate of costs for dismantling and removing any improvements in the premises of subsidiaries and branch offices.

The right-of-use asset is subsequently depreciated using the straight-line method from the date of lease commencement until the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

E. Leases (continued)

The lease liability is initially measured at the present value of the lease payments payable over the lease terms, discounted at the interest rate implicit in the lease or, if that rate cannot be readily determined, at the incremental borrowing rate of the Group. The Group generally applies its borrowing rate as a discount rate.

The lease payments included in the measurement of the lease liability include the following: fixed payments, including payments that are substantially fixed.

The lease liability is measured at amortised cost using the effective interest method.

The Group discloses the right-of-use assets in Note 23. Other assets, and lease liabilities in Note 28. Other liabilities, due to immaterial amount.

Short-term leases and leases of low-value assets

The Group has chosen the option of non-recognition of right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises lease payments associated with these leases as an expense using the straight-line method over the term of the lease.

The Group had no financial leases in its portfolio.

The average incremental interest rate applied by the Group to leases is 3.07% (in 2019: 3.07%). The Group calculated the incremental interest rate for each leased property, taking into account the risk-free interest rate (for individual borrowing currency), economic conditions, difference in the Group's financing cost for investments, the lease maturity, and the location of property.

(b) The Group as a lessor

Leases in which the lessor retains substantially all the risks and rewards incidental to ownership of an underlying asset are classified as operating leases. Operating lease assets are included in 'Investments in property' in the statement of financial position. Investments in property are disclosed in Note 23. Other assets due to immaterial amount. Assets are depreciated on a straight-line basis in the same way as other items of property and equipment. Lease income is recognised over the term of the lease.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

F. Income tax

Based on Article 9 of the Act on the HBOR, the parent company is exempt from income tax. Income tax liabilities arise exclusively from the activities of the other members of the Group.

The income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at date of reporting, and any adjustments to tax payable in respect of previous years.

Deferred taxes are calculated by using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at date of reporting.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at date of reporting, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each statement of financial position date, the Group reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

Deferred tax assets and liabilities are offset only if certain criteria are met.

G. Financial assets and financial liabilities

i. Recognition and initial measurement

The Group initially recognises loans to financial institutions, loans to other customers, deposits and debt securities issued on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at Fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

ii. Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, Fair value through other comprehensive income or Fair value through profit or loss.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

ii. Classification (continued)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at fair value through other comprehensive income only if it meets both of the following conditions and is not designated as at Fair value through profit or loss:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at fair value through profit or loss.

In addition, at initial recognition, the Group may irrevocably designate that a financial asset is measured at fair value through profit or loss (financial assets that otherwise meet amortized cost requirements or at fair value through other comprehensive income) if this eliminates or significantly reduces the accounting mismatch that would otherwise have occurred.

Business models

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

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

Business models of the Group are:

- Business model, whose objective is to hold assets for the collection of contractual cash flows – it includes all financial assets held for the purpose of collection of contractual cash flows over the lifetime of the financial instrument.

For the purpose of classification in this business model, financial assets goes through the SPPI (Solely payment of principal and interest) test, and the following financial assets are allocated to this model:

- o current accounts with banks,

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

ii. Classification (continued)

Business models (continued)

- Deposits with banks,
- Loans and reversed repo placements,
- Other receivables,

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

- Business model aimed to collect the contractual cash flows and sale of financial assets – it includes financial assets held for the purpose of collecting the agreed cash flows and sale of financial assets.

The following financial assets are allocated to the business model for the purpose of collection and sale:

- Debt securities (pass SPPI test),
- Equity securities (fail SPPI test),
- Shares in investment funds (fail SPPI test),

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

- Business model under which financial assets are measured at fair value through profit and loss account (fail SPPI test) – combines all financial assets that are not held under the previously mentioned two business models.

Financial assets under this business model are managed for the purpose of generating cash flows from the sale of assets and generating short-term profit.

iii. SPPI test

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

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

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

iii. SPPI test (continued)

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

SPPI test is performed:

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

iv. Reclassification of financial assets

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

v. Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received for the part derecognised (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

v. Derecognition (continued)

From 1 January 2018 any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at fair value through other comprehensive income is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

vi. Modification of financial assets

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

The difference between the original gross carrying amount before modification and the gross carrying amount established on the basis of modified cash-flows after modification is recognised in Profit or loss.

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

For the purpose of deciding whether the quantitative modification is material or immaterial, quantitative test is implemented to establish whether the materiality threshold has been exceeded. Gross carrying amounts before and after the modification are compared, and new cash flows are discounted by the original effective interest rate. As materiality threshold of quantitative modifications affecting the cash flows modification, difference in the amount of initial cash flow compared to the modified cash flow in the amount of 10% change of the initial cash flow is established.

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

for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

vii. Purchased or originated credit-impaired financial assets (POCI assets)

POCI assets are financial assets for which, at initial recognition, there is objective evidence of credit impairment as the credit risk of originated or issued assets is very high or, in the case of purchase, the assets have been purchased at a high discount.

At initial recognition, the expected credit losses are included in the fair value of POCI assets and the loss allowance equal zero.

On the reporting date, only cumulative changes in the lifetime expected credit losses that occur after the initial recognition of POCI assets are recognised as loss allowance for the impairment of POCI assets.

For the purposes of impairment calculation, the lifetime expected credit losses are always recognised for these assets. POCI assets remain allocated to Stage 3 until derecognition.

viii. Fair value measurement

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date in the principal or the most advantageous market under current market conditions.

Basic price is an exit price, regardless of whether that price is directly observable or estimated using another valuation technique.

At initial recognition, when an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price).

The fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price).

If another IFRS requires or permits an entity to measure an asset or a liability initially at fair value and the transaction price differs from fair value, the Group shall recognize the resulting gain or loss in profit or loss unless that IFRS specifies otherwise.

For measuring fair value the Group is maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The Group selects inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability.

If an asset or a liability measured at fair value has a bid price and an ask price (e.g. an input from a dealer market), the Group uses the price within the bid-ask spread as the most representative of fair value.

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

for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

viii. Fair value measurement (continued)

Pursuant to aforesaid, the carrying amounts of cash and balances with the Croatian National Bank approximately present their fair values.

The estimated fair value of deposits approximates their carrying amounts since all deposits mature up to 90 days.

Loans and advances to banks and other customers are presented net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. The interests subsidies that are recognized as deferred income in discounted amounts are presented within other liabilities are taken into account in estimating fair value. The fair value of HRK loans with one-way currency clause is assessed as described under the "Foreign currency transactions and foreign currency clause" paragraph.

The Bank's long-term borrowings have no quoted market price, and their fair value is estimated as the present value of future cash flows, discounted at interest rates in effect at the reporting date for new borrowings of a similar nature and with a similar remaining maturity.

The fair value of bonds issued by HBOR on 31 December 2019 is stated in Note 26. (31 December 2020: HRK 0 thousand) and is presented by using level 2 inputs that are observable at Bloomberg service on the basis of mid-rate of Bloomberg Generic (BGN) prices.

BGN or Bloomberg Generic price is the simple average price that includes indicative prices and executable prices. The mid-rate is the average between the quoted "ask" price and the "bid" price.

The Group takes care of the fair value hierarchy presentation that comprises of three levels of inputs to valuation techniques used to measure fair value as follows:

| | Level 1 | Level 2 | Level 3 |
|----------------|--|--|---|
| Inputs: | Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. | Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. | Unobservable inputs for the asset or liability or adjusted market inputs. |

The Group discloses transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer occurred.

Comparison between the fair value and the carrying value of financial instruments that are not measured at fair value is given in Note 35. 2.

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

for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

ix. Impairment

Impairment of financial assets is recognised under the model of expected credit losses for assets that are subsequently measured at amortised cost and assets that are subsequently measured at fair value through other comprehensive income.

Impairment is performed during the accounting periods and at the year end at the balance sheet date, and the effects of impairment are stated for each asset individually in the statement on financial position, other comprehensive income and statement on profit and loss.

Impairment is performed by applying the general and simplified approach.

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

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

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

Stage 1 – financial instruments with low credit risk are allocated to this stage, such as:

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

Financial instruments which are not deemed instruments of low credit risk only due to the value of collaterals.

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

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

For detailed explanation of the triggers for classification in Stage 2 please see Note 34. Risk management.

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

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

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

for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

ix. Impairment (continued)

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

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

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

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

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

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

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

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

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

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

for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

ix. Impairment (continued)

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

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

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

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

Financial assets classified as assets at fair value through the Profit or Loss are initially and subsequently measured at the established fair value and are not subject to impairment; the fair value of assets is, however, established in accordance with the internal documents that regulate the methods of determining the value of financial instruments until derecognition of financial instruments.

Decrease or increase in the fair value of these financial assets is recorded through the increase or decrease in their carrying amount in the Statement of Financial Position, whereas gains or losses resulting from the change in the fair value are recognised in the Statement on Profit or Loss.

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

ix. Impairment (continued)

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

Details regarding the methodology are stated in Note 34. Risk Management.

x. Financial assets-categories

Financial assets of the Group are comprised of:

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

Current accounts with banks

Current accounts with banks are allocated to a business model whose purpose is to hold assets for the payment of contracted cash flows and they meet the SPPI test in accordance with the Methodology for the Classification and Measurement of Financial Instruments.

Pursuant to the above, Current accounts with banks are classified to the assets subsequently measured at amortised cost.

In the case of identified expected credit losses on funds on transaction accounts with domestic banks and abroad, impairment is performed but the expected credit losses are not discounted to present value in accordance with the short-term character of these financial assets.

Deposits with banks

Deposits with banks are allocated to a business model whose purpose is to hold assets for the collection of contractual cash flows and they pass the SPPI test in accordance with the Methodology for the Classification and Measurement of Financial Instruments.

Pursuant to the above, deposits with banks are classified to the assets subsequently measured at amortised cost.

Impairment is determined in the amount of the expected credit losses, however, in the case of short-term deposits, they are not discounted to present value in accordance with their short-term character.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

x. Financial assets-categories (continued)

Loans

Loans are allocated to a business model whose purpose is to hold assets for the collection of contractual cash flows. Loans that pass the SPPI test in accordance with the Methodology for the Classification and Measurement of Financial Instruments are classified to the assets subsequently measured at amortised cost. Loans that fail the SPPI test in accordance with the Methodology for the Classification and Measurement of Financial Instruments are classified to the assets subsequently measured at fair value through profit or loss.

Impairment of loans subsequently measured at amortised cost is determined in the amount of the expected credit losses by applying the general impairment approach (see G.ix. Impairment).

Loan receivables are based on contracts. Any amendments to contract provisions that change the agreed loan cash flows are considered to be a modification of a loan (see G.vi. Modification of financial assets).

Loans purchased or originated, for which the existence of expected credit losses was determined at initial recognition, are considered to be POCI assets (see G.vii. Purchased or originated credit-impaired financial assets (POCI assets)).

Interest income from fees is recognised in the profit or loss using the effective interest rate method wherever applicable. If a fee, which represents an incremental loan cost, arises before the first loan disbursement, the fee income is recognised in profit or loss on a time-proportionate basis (the so-called linear method) until the effective interest rate has been set. From the moment when the effective interest rate is set until the end of the loan lifetime, interest income is recognised in the profit or loss by applying the effective interest rate method on the unamortised fee amount.

Loans classified to assets subsequently measured at fair value through profit or loss are not subject to impairment, and the provisions described in Note G.x. "Shares in investment funds" apply to both initial and subsequent measurements.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

x. Financial assets-categories (continued)

Debt securities

HBOR invests a portion of liquidity reserve funds in debt securities in accordance with the terms and conditions prescribed by the bank's internal documents regulating HBOR's investment policy. Owing to the development role of HBOR that has been determined by the Act on HBOR, and owing to the preservation of capital and the reduction of risks arising from the performance of activities determined by the Act on HBOR to the lowest level possible, the Bank does not acquire securities and investments for the purpose of recording short-term profit or loss from trading activities, it does so for the purpose of maintaining short-term liquidity reserves and managing short-term liquidity.

Debt securities are comprised of bonds and money market instruments: treasury bills and commercial papers.

Debt securities are allocated to a business model whose purpose is to collect the contractual cash flows and to sell the financial assets, they pass the SPPI test and are classified to the assets subsequently measured at fair value through other comprehensive income.

Debt securities are recorded off-balance sheet at nominal value as at the trading date, and they are recognised in the statement of financial position at fair value as at the settlement date including transaction costs directly attributable to the acquisition of financial assets.

The earned interest is recognised as interest receivables as at the settlement date and does not represent HBOR's revenue.

Interest accrued on the nominal value of debt securities is proportional to the interest rate and maturity date and is recognised as interest income in the profit or loss using the effective interest rate method.

Amortisation of initially recognised premium or discount and transaction costs for purchased debt securities is recognised in the profit or loss as an increase or a decrease in interest income using the effective interest rate method.

Debt securities are measured at balance sheet date at fair value that is determined in the manner prescribed by internal documents regulating the methods of measurement of financial instruments (Financial Instruments Measurement Methodology). Gains or losses arising from the change in the fair value of these financial assets are recognised in other comprehensive income, and foreign exchange gains or losses are recognised in the profit or loss.

If financial assets cease to be recognised, the cumulative gains or losses recognised in other comprehensive income are reclassified from equity to profit or loss as reclassification adjustment.

Impairment is determined in the amount of the expected credit losses (see G.ix. Impairment - general approach).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

x. Financial assets-categories (continued)

Equity securities

The accounting treatment of investment in ordinary or preference shares or business interests depends on the degree of control and influence HBOR has over the business and operating policies of company and on the type of investment.

Investments are broken down as follows:

- 1) investment without significant influence – equity stake below 20 %,
- 2) investment in associates – significant influence,
- 3) investment in subsidiaries – controlling influence.

When preparing separate financial statements, investments in associates and subsidiaries are stated either:

- 1) at acquisition cost, or
- 2) in accordance with IFRS 9, or
- 3) using the equity method.

The same accounting treatment is used for every investment category.

Where investments in subsidiaries and associates, stated at acquisition cost or using the equity method, are classified as investments held for sale or distribution, they are stated in accordance with the IFRS 5 “Foreclosed assets and Discontinued Operations”.

In such circumstances, measurement of investments accounted for in accordance with the IFRS 9 is not changed.

Investments without significant influence – equity stake below 20 %

Equity securities are allocated to a business model whose purpose is to collect the contractual cash flows and to sell the financial assets and fail the SPPI test in accordance with the Methodology for the Classification and Measurement of Financial Instruments. Therefore, equity securities are classified to the assets subsequently measured at fair value through profit or loss and are initially and subsequently measured at fair value.

The option of fair value through other comprehensive income is applied to the portion of equity securities: shares in the SWIFT company and in the European Investment Fund owing to the intention to permanently retain these shares in HBOR’s portfolio. The option of fair value through other comprehensive income represents the manner of subsequent measurement where all changes in fair value are recognised in other comprehensive income and not in profit or loss. This is an irrevocable election and all equity instruments remain classified to this model of subsequent measurement until the moment of derecognition.

Gains or losses resulting from changes in exchange rates of foreign currencies are recognised in other comprehensive income. The amounts recognised in other comprehensive income are not transferred to the profit or loss and are retained within the other comprehensive income at the moment of derecognition.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

x. Financial assets-categories (continued)

Equity securities (continued)

Investments without significant influence – equity stake below 20 % (continued)

Dividend income from equity securities is recognised on the basis of payment decision and in the period in which it is made, which is made by the assembly or another competent body, if it is reasonable that the dividend will be collected.

If the collection is uncertain, income shall be recognised at the moment of collection only.

Dividend is recognised in the profit or loss for all equity instruments irrespective of whether they have been classified as instruments subsequently measured at fair value through profit or loss or as instruments subsequently measured at fair value through other comprehensive income.

Investments in associates – significant influence (exceeding 20%)

Investments, in which HBOR holds more than 20% of voting power and which are under HBOR's significant influence, are considered to be investments in associates (see A. Associated companies).

Investments in subsidiaries – controlling influence (see A. Subsidiary companies)

Shares in investment funds

Shares in investment funds relate to the shares in cash or bond UCITS open-ended investment funds and to the shares in PE/VC venture capital alternative investment funds.

Shares in investment funds fail the SPPI test in accordance with the Methodology for the Classification and Measurement of Financial Instruments. Therefore, they are classified to the assets subsequently measured at fair value through profit or loss.

The fair value of shares in investment funds is established in accordance with internal documents regulating the methods of measurement of financial instruments (Financial Instruments Measurement Methodology) until the moment of derecognition of financial instrument, whereas it is recognised in the business books at fair value through profit or loss.

Derivative financial instruments

Derivative financial assets relate to the FX Forward and FX Swap instruments contracted for the purpose of managing the currency and the liquidity risks.

Derivative financial assets are allocated to a business model within which financial assets are measured at fair value through profit or loss and, according to the terms of the Methodology for Classification and Measurement of Financial Instruments, does not pass the SPPI test. Accordingly, it is classified to assets/liabilities that are subsequently measured at fair value through profit or loss and are measured as assets when their fair value is positive, i.e. as liabilities when they are negative.

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

for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

x. *Financial assets-categories* (continued)

Derivative financial instruments (continued)

The contractual value of derivative financial instruments is initially recognised in off-balance sheet records as at the contract date with simultaneous recognition of changes in fair value in the statement of financial position and profit or loss from the change in fair value in profit or loss until the moment of derecognition.

The fair value of derivative financial assets is established as the present value of all future cash flows in accordance with the methodology prescribed by internal documents regulating the methods of measurement of financial instruments (Financial Instruments Measurement Methodology)

HBOR does not hold or issue derivatives for speculative purposes.

None of these instruments meets the requirements of the hedging instrument under IFRS 9.

Derivative financial instruments – positive fair value are stated in the note Financial assets at fair value through profit or loss, while derivative financial instruments – negative fair value are stated in the note Other liabilities, due to the immaterial amount.

Other receivables

Other receivables include receivables due and not due from accrued non-interest income resulting from fees and commissions as well as other receivables not included in other items: advances to suppliers for short-term assets, receivables from buyers, individual prepayments and funds in accruals.

Receivables based on fees that have the character of non-interest income are fees for guarantees issued, fees for managing loans for and on behalf of others, fees for rendering payment transfer services, other fees of non-interest character.

Other receivables mature within the period of one year and sooner and are considered short-term receivables recognised in the statement of financial position as receivables not due or at the maturity date in accordance with the invoiced realisation principle.

Other receivables are allocated to a business model whose purpose is to hold assets for the collection of contractual cash flows and pass the SPPI test in accordance with the Methodology for the Classification and Measurement of Financial Instruments. Therefore, other receivables are classified to the assets subsequently measured at amortised cost.

Impairment of other receivables is determined in the amount of the expected credit losses, and it is not discounted to present value in accordance with the short-term character of these financial assets.

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

for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

x. Financial assets-categories (continued)

Other receivables (continued)

Impairment is performed by applying the impairment simplified approach (see G.ix. Impairment – simplified approach).

Contractual penalty interest is charged on overdue receivables under other receivables, and, if it is not contracted, legal penalty interest is charged.

H. Property, plant and equipment and intangible assets

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss. Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

Land is not depreciated.

Estimated useful lives are as follows:

| | | 2020 | | 2019 |
|--|--------------------------------|---------------------------|--------------------------------|---------------------------|
| | Useful life expressed in years | Annual depreciation rates | Useful life expressed in years | Annual depreciation rates |
| Buildings | 20 | 5% | 20 | 5% |
| Computers | 2 | 50% | 2 | 50% |
| Furniture and Equipment | 4 | 25% | 4 | 25% |
| Vehicles | 5 | 20% | 5 | 20% |
| Other assets and investments not mentioned | 10 | 10% | 10 | 10% |
| Intangible Assets | 4 | 25% | 4 | 25% |

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

for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

H. Property, plant and equipment and intangible assets (continued)

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

I. Investment property

Investment property held by the Group to earn rentals or for capital appreciation is initially measured at cost, and subsequently reduced by accumulated depreciation and any impairment losses.

Subsequent cost of replacing part of an existing asset is recognized in the carrying amount of an investment property at the time that cost is incurred, when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed during the period in which they are incurred.

Land is not depreciated. Depreciation is provided on other investment property on a straight-line basis at prescribed rates designed to write off the cost over the estimated useful life of the asset.

The estimated useful life of the assets expressed in years is as follows:

| | 2020 | 2019 |
|-----------------|-------|-------|
| | years | years |
| Leased property | 20 | 20 |

Remaining value, depreciation methods and the estimated useful life are reviewed periodically and reconciled, if necessary, at every financial position reporting date. If the carrying amount of the assets is found to be higher than the assessed recoverable amount, it is immediately written-off to the recoverable amount. Gains and losses from alienation are assessed by comparing sale revenues against the book amount and recorded in the comprehensive income.

Investment property is stated in Note 23. Other assets due to immaterial amount.

J. Foreclosed assets

Foreclosed assets consist of property, plant and equipment that the Group acquired in settlement of uncollected receivables. The Group expects that the carrying amount of these assets will be recovered principally through a sale transaction rather than through continuing use.

The Group measures these assets at the lower of its carrying amount and fair value (determined by an independent assessor) less estimated expected costs to sell.

Depreciation on these assets is not charged.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

J. Foreclosed assets (continued)

The Group recognises an impairment provision for any initial or subsequent partial write-off of these assets up to the fair value less costs to sell. It recognises a gain for any subsequent increase in fair value of assets less costs to sell up to the amount of cumulative impairment provision that has been recognised.

Impairment provisions are recognized in profit or loss, as well as gains/losses upon subsequent measurement and on sale of the Foreclosed assets.

K. Deposits, borrowings and debt securities issued

Debt securities issued and borrowings are the Group's sources of debt funding.

Deposits, debt securities issued and borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at Fair value through profit or loss.

Financial liabilities are stated in the contracted currency translated to Kuna at the middle exchange rate of the Croatian National Bank, contract exchange rate or determined rate arising from business and financial transactions based on documentation.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale-and-repurchase agreement), the arrangement is accounted for as collateralized loans taken from financial institutions, and the underlying asset continues to be recognised in the Group's financial statements.

L. Government grants

Interest for the borrowers qualifying for subsidized interest under the Programme of Preferential Financing through HBOR's Loan Programmes, is subsidized by the Republic of Croatia – the Ministry of Finance during the entire loan repayment period, the Programme of Working Capital COVID-19 Measure for SMEs in tourism industry for micro, small and medium-sized entrepreneurs by the Ministry of Tourism and Sports, and the Programme of Working Capital COVID-19 Measure for entrepreneurs in wood processing and furniture production industry by the Ministry of Agriculture.

The discounted amount of the interest subsidies provided for the final user is presented as deferred interest income in other liabilities and is recognized in the profit or loss on a time basis during the repayment of the loan. Consequently, loans are measured at amortized cost by using interest rate without taking into account the effects of subsidies contributed by the State.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

M. Loan commitments

The Group has issued no loan commitments that are measured at Fair value through profit or loss.

For other loan commitments:

- from 1 January 2018: the Group recognises a loss allowance;
- before 1 January 2018: the Group recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from loan commitments are included within provisions.

N. Employee benefits

The Group pays contributions to mandatory pension plans on a mandatory, contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

The Group recognizes provisions for other liabilities towards employees when there is a contractual obligation or practice in the past based on which the obligation has arisen. Further, the Group recognizes the liabilities for accumulated vacation allowances based on unutilised vacation days as of the date of the financial statements.

O. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which are subject to risks and rewards that are different from those of other segments. Limited segment information is presented in respect of the Group's business segments. The primary format of business segments is based on the Bank's management and internal reporting structure.

The Group has identified three main segments: banking activities, insurance activities and other activities.

Since the Group predominantly operates in the Republic of Croatia, there are no secondary (geographical) segments.

P. Managed funds for and on behalf of third parties

The Bank manages significant assets for and on behalf of the Ministry of Finance, Ministry of the Economy and Sustainable Development, Ministry of the Sea, Transport and Infrastructure, Ministry of Agriculture, Ministry of Regional Development and EU Funds, Vodovod i kanalizacija d.o.o., Split, the Croatian Agency for SMEs, Innovation and Investments ("HAMAG-BICRO") and commercial banks, that are used for the financing of reconstruction and development programmes.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

P. Managed funds for and on behalf of third parties (continued)

These amounts do not represent assets of HBOR and are excluded from the Bank's Statement of financial position but are recorded separately from the Bank's operations.

Revenues and expense relating to this business activity are charged to third parties, and the Bank does not have other liabilities nor bears any risks. For services provided within the framework of some of the programmes, the Bank charges a fee, whereas other programmes are performed by the Bank free of charge (see Note 32.).

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

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

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

- COVID-19-Related Rent Concessions (Amendment to IFRS 16: Leases),
- Amendment to IFRS 3 Business Combinations,
- Amendments to IFRS 9, IAS 39 and IFRS7: Interest Rate Benchmark Reform,
- Amendments to IAS 1 and IAS 8: Definition of Material,
- Amendments to References to Conceptual Framework in IFRS Standards,
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1),
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

5. Interest income calculated using the effective interest method

Interest income by borrowers:

| | 2020 | Group | 2020 | Bank |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| | HRK '000 | 2019 | HRK '000 | 2019 |
| | | HRK '000 | | HRK '000 |
| Public sector | 116,636 | 95,596 | 115,497 | 94,279 |
| State-owned companies | 39,280 | 36,215 | 39,280 | 36,215 |
| Foreign companies | 37,183 | 43,811 | 37,183 | 43,811 |
| Domestic companies | 271,284 | 284,255 | 271,284 | 284,255 |
| Domestic financial institutions | 133,484 | 155,724 | 133,484 | 155,724 |
| Foreign financial institutions | 302 | 601 | 302 | 601 |
| Penalty interest | 7,941 | 30,455 | 7,941 | 30,455 |
| Other | 16,371 | 19,246 | 16,371 | 19,246 |
| | 622,481 | 665,903 | 621,342 | 664,586 |

Interest income by type of facility:

| | 2020 | Group | 2020 | Bank |
|--|-----------------|-----------------|-----------------|-----------------|
| | HRK '000 | 2019 | HRK '000 | 2019 |
| | | HRK '000 | | HRK '000 |
| Interest on loans | | | | |
| - financial institutions | 133,616 | 155,581 | 133,616 | 155,581 |
| - other customers | 458,335 | 478,965 | 458,335 | 478,965 |
| | 591,951 | 634,546 | 591,951 | 634,546 |
| Investments in securities | 30,226 | 30,591 | 29,087 | 29,274 |
| - <i>Bonds of the Republic of Croatia</i> | 29,473 | 29,865 | 28,348 | 28,589 |
| - <i>Corporate bonds</i> | 176 | 177 | 162 | 136 |
| - <i>Treasury bills of the Ministry of Finance</i> | 577 | 549 | 577 | 549 |
| Deposits | 304 | 766 | 304 | 766 |
| | 622,481 | 665,903 | 621,342 | 664,586 |

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 (see Note 28 Other liabilities) and is recognized in profit or loss on a time basis during the repayment of the loan. Interest income earned on this basis in 2020 amounts to HRK 38,412 thousand (31 December 2019: HRK 48,956 thousand).

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

for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

6. Interest expense

Interest expense by type of payee:

| | 2020 | Group | 2020 | Bank |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| | HRK '000 | 2019 | HRK '000 | 2019 |
| | | HRK '000 | | HRK '000 |
| Domestic financial institutions | 336 | 5,803 | 336 | 5,803 |
| Foreign financial institutions | 236,874 | 305,612 | 236,874 | 305,612 |
| State units | 6,863 | - | 6,863 | - |
| Other | 139 | 187 | 118 | 143 |
| | 244,212 | 311,602 | 244,191 | 311,558 |

Interest expense by type of facility:

| | 2020 | Group | 2020 | Bank |
|---|-----------------|-----------------|-----------------|-----------------|
| | HRK '000 | 2019 | HRK '000 | 2019 |
| | | HRK '000 | | HRK '000 |
| Borrowings | 213,738 | 239,518 | 213,738 | 239,518 |
| Debt securities | 25,334 | 70,598 | 25,334 | 70,598 |
| Deposits | 5,001 | 1,299 | 5,001 | 1,299 |
| Leases – interest expenses on long term contracts | 139 | 187 | 118 | 143 |
| | 244,212 | 311,602 | 244,191 | 311,558 |

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.

7. Net fee and commission income

| | 2020 | Group | 2020 | Bank |
|--|-----------------|-----------------|-----------------|-----------------|
| | HRK '000 | 2019 | HRK '000 | 2019 |
| | | HRK '000 | | HRK '000 |
| Fee and commission income from contracts with customers: | | | | |
| Asset management - from managed funds for and on behalf of third parties | 20,624 | 16,608 | 20,624 | 16,608 |
| From payment operations | 206 | 261 | 206 | 261 |
| Other | 3 | 4 | 3 | 4 |
| Total fee and commission income from contracts with customers | 20,833 | 16,873 | 20,833 | 16,873 |
| From issued guarantees | 3,900 | 8,394 | 3,900 | 8,394 |
| Reinsurance commission income | 3,090 | 2,985 | - | - |
| Total fee and commission income | 27,823 | 28,252 | 24,733 | 25,267 |
| Fee and commission expense | (1,764) | (2,774) | (1,764) | (2,774) |
| Net fee and commission income | 26,059 | 25,478 | 22,969 | 22,493 |

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

for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

8. Net gains/(losses) on financial operations

| | 2020 | Group | 2020 | Bank |
|--|------------------|-----------------|------------------|-----------------|
| | HRK '000 | 2019 | HRK '000 | 2019 |
| | | HRK '000 | | HRK '000 |
| Net foreign exchange gains/(losses) on foreign currency assets: | | | | |
| Cash on hand, accounts at banks and due from banks | (2,040) | 9,473 | (2,040) | 9,473 |
| Loans given to financial institutions and other customers | 139,717 | 55,501 | 139,717 | 55,501 |
| Financial assets at fair value through profit or loss | 772 | 188 | 772 | 188 |
| Debt instruments at amortised cost | 1 | 3 | - | - |
| Financial assets at fair value through other comprehensive income | 130 | 689 | (124) | 653 |
| Other | 4,726 | 1,483 | 4,726 | 1,484 |
| | 143,306 | 67,337 | 143,051 | 67,299 |
| Net foreign exchange gains/(losses) on foreign currency liabilities: | | | | |
| Deposits | 3,085 | 1,547 | 3,085 | 1,547 |
| Borrowings and issued long-term securities | (156,246) | (71,212) | (156,246) | (71,212) |
| Other | (650) | (574) | (717) | (579) |
| | (153,811) | (70,239) | (153,878) | (70,244) |
| Net foreign exchange gains/(losses) on foreign currency assets and liabilities | (10,505) | (2,902) | (10,827) | (2,945) |
| Gains/(losses) on assets at fair value through profit or loss | 2,898 | 7,625 | 3,020 | 7,607 |
| Gain/(loss) from trading with derivative financial instruments | 4,773 | - | 4,773 | - |
| Realized gains/(losses) on financial assets at fair value through other comprehensive income | (278) | 479 | - | 81 |
| Net (losses)/gains on financial operations | (3,112) | 5,202 | (3,034) | 4,743 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

9. Operating expenses

Operating expenses can be shown as follows:

| | 2020 | Group | 2020 | Bank |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|
| | HRK '000 | 2019 | HRK '000 | 2019 |
| | | HRK '000 | | HRK '000 |
| 9 a) Employee expenses | 97,018 | 95,078 | 92,579 | 91,317 |
| 9 b) Depreciation | 9,423 | 8,517 | 9,101 | 8,164 |
| 9 c) Other expenses | 49,605 | 67,677 | 45,794 | 59,827 |
| <i>From what:</i> | | | | |
| <i>Administration expenses</i> | 12,989 | 20,772 | 12,626 | 20,267 |
| <i>Material and services</i> | 28,391 | 28,933 | 26,814 | 27,652 |
| <i>Other expenses</i> | 8,225 | 17,972 | 6,354 | 11,908 |
| | 156,046 | 171,272 | 147,474 | 159,308 |

Material and services contain audit costs as follows:

| | 2020 | Group | 2020 | Bank |
|--------------------|-----------------|-----------------|-----------------|-----------------|
| | HRK '000 | 2019 | HRK '000 | 2019 |
| | | HRK '000 | | HRK '000 |
| Audit services | 750 | 741 | 563 | 563 |
| Non-audit services | 74 | - | 74 | - |
| | 824 | 741 | 637 | 563 |

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

| | 2020 | Group | 2020 | Bank |
|--|-----------------|-----------------|-----------------|-----------------|
| | HRK '000 | 2019 | HRK '000 | 2019 |
| | | HRK '000 | | HRK '000 |
| Change in the claims provision | 708 | 55 | - | - |
| Change in the claims provision, reinsurer's share | (421) | 1,066 | - | - |
| Expenses of insurance operations | 287 | 1,121 | - | - |

Provisions for losses as at 31 December 2020 consisted of reported and unreported losses in the framework proportion 48:52. At the end of 2020, total gross provisions for losses decreased compared to the end of 2019 by 3%. The Bornhuetter-Ferguson method was used with respect to the gross amount of reserves for the losses not reported, whereas the amount of the actual losses incurred was used with respect to the reported losses. The reinsurance share was determined in accordance with the terms and conditions of reinsurance in force.

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

for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

10. 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 | |
|---|----------------|---------------|----------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Impairment losses on cash on hand and due from financial institutions | 1,160 | (1,190) | 1,155 | (1,177) |
| Impairment losses on deposits with other banks | (1,268) | (112) | (1,268) | (112) |
| Impairment losses on loans to financial institutions | 23,836 | (58,486) | 23,836 | (58,486) |
| Impairment losses on loans to other customers and interest | 69,861 | (33,136) | 69,861 | (33,136) |
| Modification loss – financial institutions | 4,297 | 6,462 | 4,297 | 6,462 |
| Modification loss – other customers | 59,587 | 39,551 | 59,587 | 39,551 |
| POCI assets – fair value adjustment at initial recognition | 40,093 | 322,431 | 40,093 | 322,431 |
| Impairment of financial assets at fair value through other comprehensive income | 1,193 | (3,401) | 1,182 | (3,186) |
| Provisions for impairment losses on debt instruments at amortised cost | (1) | (2) | - | - |
| Impairment losses on other assets | (1,032) | 1,561 | (1,001) | 1,584 |
| Provisions for commitments | (13,998) | (47,722) | (13,998) | (47,722) |
| Provision for guarantees | 2,184 | (156,368) | 2,184 | (156,368) |
| Total | 185,912 | 69,588 | 185,928 | 69,841 |

b) Other impairment losses and provisions

| | Group | | Bank | |
|--|----------------|---------------|----------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Impairment losses on foreclosed assets | 582 | 780 | 582 | 780 |
| Value adjustment from previous years | - | 482 | - | 482 |
| Provision for other liabilities | (4,230) | 2,912 | (4,341) | 2,893 |
| Total | (3,648) | 4,174 | (3,759) | 4,155 |
| Total | 182,264 | 73,762 | 182,169 | 73,996 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

11. Income tax

Based on Article 9 of the Act on the HBOR, the parent company is exempt from income tax, Income tax liabilities arise exclusively from the activities of the other members of the Group.

| | 2020 | Group 2019 |
|--|-----------------|-----------------------|
| | HRK '000 | HRK '000 |
| Recognised in Income Statement | | |
| Current tax - recognised in Income Statement | (459) | 200 |
| Income tax | (459) | 200 |
| Income tax reconciliation | | |
| Profit before tax | 81,990 | 154,098 |
| Profit of the Bank not subject to income tax | (79,339) | (155,050) |
| Profit before tax subject to income tax | 2,651 | (952) |
| Income tax at 18% rate | (400) | 257 |
| Income tax at 12% rate | (51) | (57) |
| Non-deductible expense | (8) | - |
| Total income tax expense | (459) | 200 |

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

for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

12. Cash on hand and current accounts with banks

| | Group | | Bank | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| | HRK 000 | HRK 000 | HRK 000 | HRK 000 |
| Account with the Croatian National Bank | 1,491,187 | 233,240 | 1,491,187 | 233,240 |
| Cash on hand | 5 | 5 | 5 | 5 |
| Foreign currency account - domestic banks | 155,772 | 708 | 155,766 | 703 |
| Foreign currency account - foreign banks | 9,512 | 649,833 | 7,847 | 648,018 |
| Domestic currency account - domestic banks | 4,292 | 1,104 | - | - |
| | 1,660,768 | 884,890 | 1,654,805 | 881,966 |
| Loss allowances | (1,652) | (483) | (1,643) | (479) |
| | 1,659,116 | 884,407 | 1,653,162 | 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 December 2020 | Group | | | | Bank | | | |
|---------------------------------------|------------------|----------------|----------------|------------------|------------------|----------------|----------------|------------------|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 |
| Gross amount | 1,660,763 | - | - | 1,660,763 | 1,654,800 | - | - | 1,654,800 |
| Loss allowances | (1,652) | - | - | (1,652) | (1,643) | - | - | (1,643) |
| Balance as of 31 December 2020 | 1,659,111 | - | - | 1,659,111 | 1,653,157 | - | - | 1,653,157 |

| 31 December 2019 | Group | | | | Bank | | | |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 |
| Gross amount | 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

12. 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 – Dec 31, 2020 | Group Jan 1 - Dec 31, 2019 | Jan 1 - Dec 31, 2020 | Bank Jan 1 - Dec 31, 2019 |
|--|---------------------------------|---|---------------------------------|--|
| | HRK 000 | HRK 000 | HRK 000 | HRK 000 |
| Balance as of 1 January | 483 | 1,668 | 479 | 1,651 |
| Net (decrease)/increase of loss allowances on amounts due from banks | 1,160 | (1,190) | 1,155 | (1,177) |
| <i>Total recognised through Income Statement (Note 10)</i> | <i>1,160</i> | <i>(1,190)</i> | <i>1,155</i> | <i>(1,177)</i> |
| Net foreign exchange gain/loss on loss allowances | 9 | 5 | 9 | 5 |
| Balance at the end of the reporting period | 1,652 | 483 | 1,643 | 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

13. Deposits with other banks

| | 31 December 2020 HRK '000 | Group 31 December 2019 HRK '000 | 31 December 2020 HRK '000 | Bank 31 December 2019 HRK '000 |
|------------------------------|---------------------------------|--|---------------------------------|---|
| Deposits with foreign banks | 7,280 | 372,501 | 7,280 | 372,501 |
| Deposits with domestic banks | - | 182,343 | - | 182,343 |
| Accrued interest | 58 | (118) | 58 | (118) |
| | 7,338 | 554,726 | 7,338 | 554,726 |
| Loss allowances | (1) | (1,256) | (1) | (1,256) |
| | 7,337 | 553,470 | 7,337 | 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 December 2020

| | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | Group Total HRK 000 | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | Bank Total HRK 000 |
|---|--------------------|--------------------|--------------------|---------------------------|--------------------|--------------------|--------------------|--------------------------|
| Gross amount | 7,338 | - | - | 7,338 | 7,338 | - | - | 7,338 |
| Loss allowances | (1) | - | - | (1) | (1) | - | - | (1) |
| Balance as of 31 December 2020 | 7,337 | - | - | 7,337 | 7,337 | - | - | 7,337 |

31 December 2019

| | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | Group Total HRK 000 | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | Bank Total HRK 000 |
|---|--------------------|--------------------|--------------------|---------------------------|--------------------|--------------------|--------------------|--------------------------|
| Gross amount | 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

13. Deposits with other banks (continued)

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

| | Jan 1 – Dec 31, 2020 HRK 000 | Group Jan 1 - Dec 31, 2019 HRK 000 | Jan 1 – Dec 31, 2020 HRK 000 | Bank 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 | (1,268) | (112) | (1,268) | (112) |
| <i>Total recognised through Income Statement (Note 10)</i> | <i>(1,268)</i> | <i>(112)</i> | <i>(1,268)</i> | <i>(112)</i> |
| Net foreign exchange gain/loss on loss allowances | 13 | 7 | 13 | 7 |
| Balance at the end of the reporting period | 1 | 1,256 | 1 | 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 year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

14. Loans to financial institutions

| | 31 December 2020 HRK '000 | Group and Bank 31 December 2019 HRK '000 |
|--|--|---|
| Long-term loans under loan programmes | 8,765,744 | 9,395,321 |
| Short-term loans and reverse repo transactions | 177,574 | 141,075 |
| Accrued interest | 10,907 | 5,936 |
| Deferred recognition of loan origination fees | (28,848) | (35,928) |
| | <u>8,925,377</u> | <u>9,506,404</u> |
| Loss allowances | (82,797) | (58,698) |
| | <u>8,842,580</u> | <u>9,447,706</u> |

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 December 2020 | Group and Bank | | | |
|---|----------------------------|----------------------------|----------------------------|--------------------------|
| | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | Total HRK 000 |
| Gross amount | 8,650,474 | 254,544 | 20,359 | 8,925,377 |
| Loss allowances | (36,795) | (35,435) | (10,567) | (82,797) |
| Balance as of 31 December 2020 | <u>8,613,679</u> | <u>219,109</u> | <u>9,792</u> | <u>8,842,580</u> |
| | | | | |
| 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 | <u>9,363,335</u> | <u>73,076</u> | <u>11,295</u> | <u>9,447,706</u> |

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

for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

14. Loans to financial institutions (continued)

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

| | Jan 1 - Dec 31, 2020 HRK 000 | Group and Bank Jan 1 - Dec 31, 2019 HRK 000 |
|---|---|--|
| Balance as of 1 January | 58,698 | 117,154 |
| Net increase/(decrease) of loss allowances on loans to financial institutions | 23,836 | (58,486) |
| <i>Total recognised through Income Statement (Note 10)</i> | <i>23,836</i> | <i>(58,486)</i> |
| Net foreign exchange gain/loss on loss allowances | 272 | 29 |
| Loss allowances transferred to loans to other customers | (36) | (3) |
| Unwinding – changes due to the lapse of time | 27 | 4 |
| Balance at the end of the reporting period | 82,797 | 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

14. Loans to financial institutions (continued)

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

| | 31 December 2020 HRK '000 | Group and Bank 31 December 2019 HRK '000 |
|--|--|---|
| EU Projects | 146,416 | - |
| Financial Restructuring | 3,792 | - |
| Pre-Export Finance | 1,015 | - |
| Public Sector Investment | 298,851 | - |
| Private Sector Investment | 169,996 | - |
| Youth, Female, Start-up Entrepreneurship | 31,056 | - |
| Working Capital | 1,778 | - |
| Working Capital – COVID 19 measures | 44,457 | - |
| Loan programme for reconstruction and development of the economy | 1,382,832 | 1,637,578 |
| Export financing | 2,095,602 | 2,279,986 |
| Loan programme for reconstruction and development of infrastructure in the Republic of Croatia | 1,421,077 | 1,350,974 |
| Loan programme for small and medium-sized enterprises | 3,164,285 | 4,121,003 |
| Loan programme for war-torn and demolished housing and business facilities | 4,587 | 5,780 |
| Other | 177,574 | 141,075 |
| Accrued interest | 10,907 | 5,936 |
| Deferred recognition of loan fees | (28,848) | (35,928) |
| | <u>8,925,377</u> | <u>9,506,404</u> |
| Loss allowances | (82,797) | (58,698) |
| | <u>8,842,580</u> | <u>9,447,706</u> |

Average interest rates for total loans to financial institutions are stated at 0.48% (31 December 2019: 0.58%) 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 27,574 thousand (31 December 2019: HRK 41,075 thousand). The above placements are collateralized by securities in the amount of HRK 28,996 thousand (31 December 2019: HRK 43,115 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)
(All amounts are expressed in HRK thousand)

15. Loans to other customers

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

| | Group and Bank | |
|---|--|--|
| | 31 December 2020 HRK '000 | 31 December 2019 HRK '000 |
| Domestic companies | 10,388,049 | 10,551,828 |
| State-owned companies | 1,474,038 | 1,253,879 |
| Public sector | 4,489,021 | 3,710,224 |
| Foreign companies | 981,652 | 794,802 |
| Non-profit institutions | - | 5,900 |
| Other | 542,754 | 557,577 |
| Accrued interest | 484,863 | 281,512 |
| Deferred recognition of loan origination fees | (88,468) | (91,014) |
| | 18,271,909 | 17,064,708 |
| Loss allowances | (3,475,730) | (3,365,074) |
| | 14,796,179 | 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 December 2020 | Group and Bank | | | | |
|---|----------------------------|----------------------------|----------------------------|-------------------------|--------------------------|
| | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | POCI HRK 000 | Total HRK 000 |
| Gross amount | 11,479,156 | 1,606,757 | 3,918,415 | 1,267,581 | 18,271,909 |
| Loss allowances | (353,077) | (517,219) | (2,422,493) | (182,941) | (3,475,730) |
| Balance as of 31 December 2020 | 11,126,079 | 1,089,538 | 1,495,922 | 1,084,640 | 14,796,179 |
| 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

15. Loans to other customers (continued)

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

| | Jan 1 - Dec 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 increase/(release) of loss allowances on loans to other customers and interest | 69,861 | (33,136) |
| <i>Total recognised through Income Statement (Note 10)</i> | <u>69,861</u> | <u>(33,136)</u> |
| Net foreign exchange gain/loss on loss allowances | 479 | 9,126 |
| Write-offs | (384) | (26,751) |
| Write-off due to sale of receivables | - | (52) |
| Loss allowances transferred from loans to financial institutions | 36 | 3 |
| Unwinding – changes due to the lapse of time | 40,997 | 33,618 |
| Acquisition of immovable property | (6,198) | (6,475) |
| Conversion of receivables into shares | - | (1,812) |
| Interest transferred from the off-balance sheet records and other | 5,865 | 10,257 |
| Balance at the end of the reporting period | <u>3,475,730</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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

15. Loans to other customers (continued)

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

| | Group and Bank | |
|--|-----------------------------|-----------------------------|
| | 31 December 2020 | 31 December 2019 |
| | HRK '000 | HRK '000 |
| EU Projects | 115,740 | - |
| Financial Restructuring | 834,309 | - |
| Pre-Export Finance | 38,528 | - |
| Public Sector Investment | 878,539 | - |
| Private Sector Investment | 509,264 | - |
| Youth, Female, Start-up Entrepreneurship | 13,111 | - |
| Working Capital | 347,833 | - |
| Working Capital – COVID 19 measures | 608,444 | - |
| Loan programme for reconstruction and development of the economy | 2,847,070 | 3,968,956 |
| Export financing | 5,377,356 | 5,169,252 |
| Loan programme for reconstruction and development of infrastructure in the Republic of Croatia | 4,535,276 | 4,347,002 |
| Loan programme for small and medium-sized enterprises | 1,503,037 | 1,616,868 |
| Other | 267,007 | 1,772,132 |
| Accrued interest | 484,863 | 281,512 |
| Deferred recognition of loan origination fees | (88,468) | (91,014) |
| | 18,271,909 | 17,064,708 |
| Loss allowances | (3,475,730) | (3,365,074) |
| | 14,796,179 | 13,699,634 |

Average interest rates on loans to other customers are stated at 1.66% (31 December 2019: 1.79%). 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

16. Financial assets at fair value through profit or loss

| | Group | | Bank | |
|---|--------------------|--------------------|--------------------|--------------------|
| | 31 December | 31 December | 31 December | 31 December |
| | 2020 | 2019 | 2020 | 2019 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Loans at FVPL: | | | | |
| Mezzanine loans | 2,658 | 2,234 | 2,658 | 2,234 |
| | 2,658 | 2,234 | 2,658 | 2,234 |
| Investments in investment | | | | |
| Investments in investment funds at FVPL | 188,289 | 200,868 | 188,289 | 191,029 |
| | 188,289 | 200,868 | 188,289 | 191,029 |
| Unlisted equity instruments: | | | | |
| Investments in corporate | 31 | 31 | 31 | 31 |
| Depository receipt - DR | 319 | 539 | 319 | 539 |
| Investments in financial institutions' shares | 161 | 161 | 161 | 161 |
| | 511 | 731 | 511 | 731 |
| Derivative financial assets- positive fair value | | | | |
| | 298 | - | 298 | - |
| | 191,756 | 203,833 | 191,756 | 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 (31 December 2019.: HRK 0 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 319 thousand (31 December 2019: HRK 539 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).

As at 31 December 2020, a positive fair value of derivative financial instruments was stated in the amount of HRK 298 thousand (31 December 2019: HRK 0 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

17. Financial assets at fair value through other comprehensive income

| | 31 December 2020 HRK '000 | Group 31 December 2019 HRK '000 | 31 December 2020 HRK '000 | Bank 31 December 2019 HRK '000 |
|---|---------------------------------|--|---------------------------------|---|
| Debt instruments: | | | | |
| Listed debt instruments: | | | | |
| Bonds of the Republic of Croatia | 1,519,381 | 1,122,448 | 1,469,742 | 1,083,749 |
| Corporate bonds | 2,355 | 1,000 | - | - |
| Treasury bills of the Ministry of Finance | 1,537,395 | 414,788 | 1,537,395 | 414,788 |
| Accrued interest | 17,663 | 11,232 | 17,219 | 10,762 |
| | 3,076,794 | 1,549,468 | 3,024,356 | 1,509,299 |
| Unlisted debt instruments: | | | | |
| Corporate bonds | 564 | 573 | 564 | 573 |
| Convertible bonds - CB | 1,307 | 2,155 | 1,307 | 2,155 |
| Accrued interest | 391 | 369 | 391 | 369 |
| | 2,262 | 3,097 | 2,262 | 3,097 |
| Equity instruments: | | | | |
| Unlisted equity instruments: | | | | |
| Investments in shares of foreign legal entities - SWIFT | 43 | 40 | 43 | 40 |
| Shares of foreign financial institutions – EIF | 26,665 | 26,205 | 26,665 | 26,205 |
| | 26,708 | 26,245 | 26,708 | 26,245 |
| | 3,105,764 | 1,578,810 | 3,053,326 | 1,538,641 |

Non-listed convertible bonds (CB) of the Fortenova Group TopCo B.V. in the amount of HRK 1,307 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 December 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 | 3,077,679 | - | 1,377 | 3,079,056 | 3,025,241 | - | 1,377 | 3,026,618 |
| Balance as of 31 December 2020 | 3,077,679 | - | 1,377 | 3,079,056 | 3,025,241 | - | 1,377 | 3,026,618 |
| | | | | | | | | |
| 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

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

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

| | Group | | Bank | |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 |
| | HRK 000 | HRK 000 | HRK 000 | HRK 000 |
| Balance as of 1 January | 3,355 | 6,746 | 3,283 | 6,459 |
| Net increase/(release) of loss allowances | 1,193 | (3,401) | 1,182 | (3,186) |
| <i>Total recognised through Income Statement (Note 10)</i> | <i>1,193</i> | <i>(3,401)</i> | <i>1,182</i> | <i>(3,186)</i> |
| Net foreign exchange gain/loss on loss allowances | 34 | 10 | 34 | 10 |
| Balance at the end of the reporting period | 4,582 | 3,355 | 4,499 | 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

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

The following text contains investment breakdown:

| | | | | | Group | | Bank | |
|---|---|------------------|-------------------|------------------|------------------|------------------|------------------|------------------|
| | Date of issue | Date of maturity | Interest rate (%) | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 | |
| | | | | HRK '000 | HRK '000 | HRK '000 | 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 | 157,527 | 164,005 | 157,527 | 164,005 |
| | RHMF-O-247E | 10.7.2013. | 10.7.2024. | 5.75 | 17,857 | 18,264 | 12,608 | 12,894 |
| | RHMF-O-203E | 5.3.2010. | 5.3.2020. | 6.5 | - | 753 | - | - |
| | RHMF-O222E | 5.2.2019. | 5.2.2022. | 0.5 | 15,149 | 14,963 | 15,149 | 14,963 |
| <i>Bonds of the Republic of Croatia in foreign currency:</i> | | | | | | | | |
| | XS1117298916 | 11.3.2015. | 11.3.2025. | 3.0 | 321,176 | 58,954 | 321,176 | 58,954 |
| | XS1843434876 | 19.6.2019. | 19.10.2029. | 1.125 | 15,829 | 15,376 | 15,829 | 15,376 |
| | XS1028953989 | 17.06.2020. | 17.06.2031. | 1,500 | 56,627 | - | 56,627 | - |
| <i>Bonds of the Republic of Croatia in HRK:</i> | | | | | | | | |
| | RHMF-O-203A | 5.3.2010. | 5.3.2020. | 6.75 | - | 32,965 | - | 30,331 |
| | RHMF-O-257A | 9.7.2015. | 9.7.2025. | 4.5 | 9,982 | 10,229 | - | - |
| | RHMF-O-26CA | 14.12.2015. | 14.12.2026. | 4.25 | 46,380 | 47,643 | 36,709 | 37,700 |
| | RHMF-O-217A | 8.7.2016. | 8.7.2021. | 2.75 | 221,281 | 226,436 | 219,251 | 224,355 |
| | RHMF-O-222A | 7.2.2017. | 7.2.2022. | 2.25 | 71,663 | 72,918 | 71,663 | 72,918 |
| | RHMF-O-282A | 7.2.2017. | 7.2.2028. | 2.875 | 13,786 | 14,026 | 11,591 | 11,800 |
| | RHMF-O-023BA | 27.11.2017. | 27.11.2023. | 1.75 | 462,464 | 440,453 | 462,464 | 440,453 |
| | RHMF-O-297A | 9.7.2018. | 9.7.2029. | 2.38 | 3,445 | 3,483 | - | - |
| | RHMF-O-34BA | 27.11.2019. | 27.11.2034. | 1.00 | 7,975 | 1,980 | - | - |
| | RHMF-O-403E | 3.3.2020. | 3.3.2040. | 1.25 | 9,092 | - | - | - |
| | RHMF-O-253A | 3.3.2020. | 3.3.2025. | 0.25 | 79,526 | - | 79,526 | - |
| | RHMF-O-24BA | 27.11.2019. | 27.11.2024. | 0.25 | 9,622 | - | 9,622 | - |
| <i>Corporate bonds in HRK:</i> | | | | | | | | |
| | JDGL-O-24XA | 18.12.2019. | 18.12.2024. | 1.75 | 977 | 1,000 | - | - |
| | HRATGRO25CA5 | 11.12.2020. | 11.12.2025. | 0.88 | 1,378 | - | - | - |
| | | | | 0.002- | | | | |
| | Treasury bills in HRK up to 364 days | | | 0.005 | 1,009,812 | 399,912 | 1,009,812 | 399,912 |
| | Treasury bills with currency clause up to 295 days | | | 0.441 | - | 14,876 | - | 14,876 |
| | Treasury bills in foreign currency up to 364 days | | | 0.0000 | 527,583 | - | 527,583 | - |
| | Accrued interest | | | | 17,663 | 11,232 | 17,219 | 10,762 |
| | | | | | 3,076,794 | 1,549,468 | 3,024,356 | 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 | 564 | 573 | 564 | 573 |
| <i>Bonds of foreign corporate in foreign currency</i> | | | | | | | | |
| | Fortenova Group TopCo B.V. | 1.4.2019. | 1.4.2029. | 2.5 | 1,307 | 2,155 | 1,307 | 2,155 |
| | Accrued interest | | | | 391 | 369 | 391 | 369 |
| | | | | | 2,262 | 3,097 | 2,262 | 3,097 |
| Equity instruments: | | | | | | | | |
| <i>Unlisted equity instruments:</i> | | | | | | | | |
| | Investments in shares of foreign legal entities - SWIFT | | | | 43 | 40 | 43 | 40 |
| | Investments in shares of foreign financial institutions - EIF | | | | 26,665 | 26,205 | 26,665 | 26,205 |
| | | | | | 26,708 | 26,245 | 26,708 | 26,245 |
| Total | | | | | 3,105,764 | 1,578,810 | 3,053,326 | 1,538,641 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

18. Debt instruments at amortised cost

| | Group | | | Bank |
|----------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 31 December 2020 | 31 December 2019 | 31 December 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 amortised cost. The amounts in the table represent gross carrying amounts:

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

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

| | Group | | | Bank |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | Jan 1 – Dec 31, 2020 | Jan 1 – Dec 31, 2019 | Jan 1 – Dec 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 as of 31 December | - | - | - | - |

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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

19. Investments in subsidiaries

As at 31 December 2020, the Bank's subsidiaries are as follows:

| Consolidated company | Activity | Ownership 31 December 2020 | Ownership 31 December 2019 | Investment 31 December 2020 | Investment 31 December 2019 |
|---|---|----------------------------------|----------------------------------|-----------------------------------|-----------------------------------|
| Direct share | | | | | |
| Hrvatsko kreditno osiguranje d.d. Zagreb, Republic of Croatia | Providing insurance for company's foreign and domestic short-term receivables regarding shipments of goods and services | 100% | 100% | 36,124 | 36,124 |
| Total | | | | 36,124 | 36,124 |

Result of the subsidiary has been disclosed in Appendix – Financial performance of the HKO Group.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

20. Investments in associates

| | 31 December 2020 HRK '000 | Group 31 December 2019 HRK '000 | 31 December 2020 HRK '000 | Bank 31 December 2019 HRK '000 |
|---------------------------|--|--|--|---|
| Investments in associates | 6,000 | 12,000 | 6,000 | 12,000 |
| Value adjustments | (6,000) | (12,000) | (6,000) | (12,000) |
| | - | - | - | - |

Investments in associates were carried out within a Program of investments in the equity of companies – small and medium sized entrepreneurs or pursuant to single decisions of authorized bodies of HBOR. The investments were made for a period ranging from 4 to 6 years with the right of HBOR to sell the shares after the contracted term of holding an equity stake.

| | Line of business | % ownership in 2020 | % ownership in 2019 |
|----------------------------------|---------------------------------------|--------------------------------|--------------------------------|
| THC d.o.o., Obrovac | Production of metal products | - | 38.45% |
| Pounje d.d., Hrvatska Kostajnica | Textile industry – clothes production | 11.15% | 13.55% |

The value of investment was 100% adjusted in prior years due to assessed non-recoverability of the investment.

Pursuant to the Decision of the Management Board of the Bank of 2 October 2020 on the sale of 38.45% of shares in the capital of company THC d.o.o., Obrovac in the ownership of HBOR through a public tender procedure, the shares were transferred pursuant to the Business Share Transfer Agreement of 10 December 2020. The payment was made by the acquirer of shares and shares were derecognised from HBOR's accounts.

After the conclusion of the pre-bankruptcy agreement for the company Pounje d.d., Hrvatska Kostajnica, that became effective on 4 January 2019, and the Decision of the General Assembly of the company on the increase of the share capital, 12 interested creditors applied to the Public invitation.

Further to the above, the Commercial Court Zagreb made a Decision on increasing the share capital of the company by HRK 4,779 thousand. After that, the share capital of the company amounts to HRK 26,916 thousand, due to which HBOR's share in the capital decreased from 13.55% to 11.15%.

Changes in provisions for possible losses from investments in associates can be presented as follows:

| | Jan 1 – Dec 31, 2020 HRK '000 | Group Jan 1 – Dec 31, 2019 HRK '000 | Jan 1 – Dec 31, 2020 HRK '000 | Bank Jan 1 – Dec 31, 2019 HRK '000 |
|---|--|--|--|---|
| Balance as of 1 January | 12,000 | 17,500 | 12,000 | 17,500 |
| Derecognition against provisions formed in previous years | (6,000) | (5,500) | (6,000) | (5,500) |
| Balance as at 31 December | 6,000 | 12,000 | 6,000 | 12,000 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

21. Property, plant and equipment and intangible assets

| Group | Buildings | Computers | Furniture, equipment and vehicles | Property, plant and equipment and intangible assets not ready for use | Total property, plant and equipment | Intangible assets | Total |
|---|---------------|---------------|-----------------------------------|---|-------------------------------------|-------------------|----------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| 31 December 2020 | | | | | | | |
| Cost | | | | | | | |
| At 31 December 2019 | 78,195 | 9,702 | 14,766 | 2,149 | 104,812 | 31,465 | 136,277 |
| Additions | - | 100 | 13 | 5,951 | 6,064 | 29 | 6,093 |
| Transfer from assets not yet ready for use | - | 305 | 2,123 | (8,051) | (5,623) | 5,623 | - |
| Returned to use | - | 61 | 112 | - | 173 | - | 173 |
| Transfer from advance payments | - | - | - | - | - | - | - |
| Disposals and write-offs | - | (131) | (3,226) | - | (3,357) | - | (3,357) |
| Reclassification (+/-) | (175) | - | - | - | (175) | - | (175) |
| At 31 December 2020 | 78,020 | 10,037 | 13,788 | 49 | 101,894 | 37,117 | 139,011 |
| Accumulated depreciation and write-off | | | | | | | |
| At 31 December 2019 | 36,892 | 8,790 | 13,576 | - | 59,258 | 28,738 | 87,996 |
| Depreciation for 2020 | 4,020 | 810 | 514 | - | 5,344 | 1,873 | 7,217 |
| Returned to use | - | 61 | 112 | - | 173 | - | 173 |
| Disposals and write-offs | - | (130) | (2,736) | - | (2,866) | - | (2,866) |
| Reclassification (+/-) | 43 | - | - | - | 43 | - | 43 |
| At 31 December 2020 | 40,955 | 9,531 | 11,466 | - | 61,952 | 30,611 | 92,563 |
| Net book value at 31 December 2020 | 37,065 | 506 | 2,322 | 49 | 39,942 | 6,506 | 46,448 |
| Net book value at 31 December 2019 | 41,303 | 912 | 1,190 | 2,149 | 45,554 | 2,727 | 48,281 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

21. Property, plant and equipment and intangible assets (continued)

| Group | Buildings | Computers | Furniture, equipment and vehicles | Property, plant and equipment and intangible assets not ready for use | Total property, plant and equipment | Intangible assets | Total |
|---|---------------|--------------|-----------------------------------|---|-------------------------------------|-------------------|----------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| 31 December 2019 | | | | | | | |
| Cost | | | | | | | |
| At 31 December 2018 | 77,102 | 9,713 | 15,103 | 896 | 102,814 | 30,357 | 133,171 |
| Additions | 1,093 | 17 | - | 2,987 | 4,097 | 112 | 4,209 |
| Transfer from assets not yet ready for use | - | 558 | 180 | (1,734) | (996) | 996 | - |
| Returned to use | - | 130 | - | - | 130 | - | 130 |
| Transfer from advance payments | - | - | 27 | - | 27 | - | 27 |
| Disposals and write-offs | - | (716) | (544) | - | (1,260) | - | (1,260) |
| At 31 December 2019 | 78,195 | 9,702 | 14,766 | 2,149 | 104,812 | 31,465 | 136,277 |
| Accumulated depreciation and write-off | | | | | | | |
| At 31 December 2018 | 32,817 | 8,546 | 13,470 | - | 54,833 | 27,506 | 82,339 |
| Depreciation for 2019 | 4,075 | 830 | 639 | - | 5,544 | 1,232 | 6,776 |
| Returned to use | - | 130 | - | - | 130 | - | 130 |
| Disposals and write-offs | - | (716) | (533) | - | (1,249) | - | (1,249) |
| At 31 December 2019 | 36,892 | 8,790 | 13,576 | - | 59,258 | 28,738 | 87,996 |
| Net book value at 31 December 2019 | 41,303 | 912 | 1,190 | 2,149 | 45,554 | 2,727 | 48,281 |
| Net book value at 31 December 2018 | 44,285 | 1,167 | 1,633 | 896 | 47,981 | 2,851 | 50,832 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

21. Property, plant and equipment and intangible assets (continued)

| Bank | Buildings | Computers | Furniture, equipment and vehicles | Property, plant and equipment and intangible assets not ready for use | Total property, plant and equipment | Intangible assets | Total |
|---|---------------|--------------|-----------------------------------|---|-------------------------------------|-------------------|----------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| 31 December 2020 | | | | | | | |
| Cost | | | | | | | |
| At 31 December 2019 | 77,102 | 9,246 | 14,601 | 2,148 | 103,097 | 30,681 | 133,778 |
| Additions | - | - | - | 5,838 | 5,838 | - | 5,838 |
| Transfer from assets not ready for use | - | 304 | 2,123 | (7,937) | (5,510) | 5,510 | - |
| Returned to use | - | 61 | 112 | - | 173 | - | 173 |
| Disposals and write-offs | - | (131) | (3,289) | - | (3,420) | - | (3,420) |
| At 31 December 2020 | 77,102 | 9,480 | 13,547 | 49 | 100,178 | 36,191 | 136,369 |
| Accumulated depreciation and write-off | | | | | | | |
| At 31 December 2019 | 36,673 | 8,359 | 13,350 | - | 58,382 | 28,087 | 86,469 |
| Depreciation for 2020 | 3,855 | 761 | 514 | - | 5,130 | 1,860 | 6,990 |
| Returned to use | - | 61 | 112 | - | 173 | - | 173 |
| Disposals and write-offs | - | (130) | (2,725) | - | (2,855) | - | (2,855) |
| At 31 December 2020 | 40,528 | 9,051 | 11,251 | - | 60,830 | 29,947 | 90,777 |
| Net book value at 31 December 2020 | 36,574 | 429 | 2,296 | 49 | 39,348 | 6,244 | 45,592 |
| Net book value at 31 December 2019 | 40,429 | 887 | 1,251 | 2,148 | 44,715 | 2,594 | 47,309 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

21. Property, plant and equipment and intangible assets (continued)

| Bank | Buildings | Computers | Furniture, equipment and vehicles | Property, plant and equipment and intangible assets not ready for use | Total property, plant and equipment | Intangible assets | Total |
|---|---------------|--------------|-----------------------------------|---|-------------------------------------|-------------------|----------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| 31 December 2019 | | | | | | | |
| Cost | | | | | | | |
| At 31 December 2018 | 77,102 | 9,278 | 14,912 | 895 | 102,187 | 29,694 | 131,881 |
| Additions | - | - | - | 2,982 | 2,982 | - | 2,982 |
| Transfer from assets not ready for use | - | 552 | 190 | (1,729) | (987) | 987 | - |
| Returned to use | - | 130 | - | - | 130 | - | 130 |
| Disposals and write-offs | - | (714) | (501) | - | (1,215) | - | (1,215) |
| At 31 December 2019 | 77,102 | 9,246 | 14,601 | 2,148 | 103,097 | 30,681 | 133,778 |
| Accumulated depreciation and write-off | | | | | | | |
| At 31 December 2018 | 32,817 | 8,139 | 13,297 | - | 54,253 | 26,864 | 81,117 |
| Depreciation for 2019 | 3,856 | 804 | 540 | - | 5,200 | 1,223 | 6,423 |
| Returned to use | - | 130 | - | - | 130 | - | 130 |
| Disposals and write-offs | - | (714) | (487) | - | (1,201) | - | (1,201) |
| At 31 December 2019 | 36,673 | 8,359 | 13,350 | - | 58,382 | 28,087 | 86,469 |
| Net book value at 31 December 2019 | 40,429 | 887 | 1,251 | 2,148 | 44,715 | 2,594 | 47,309 |
| Net book value at 31 December 2018 | 44,285 | 1,139 | 1,615 | 895 | 47,934 | 2,830 | 50,764 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

22. Foreclosed assets

| | 31 December 2020 HRK '000 | Group and Bank 31 December 2019 HRK '000 |
|------------------------|-------------------------------------|--|
| Foreclosed assets, net | 25,222 | 24,198 |
| | 25,222 | 24,198 |

In 2020, acquisition of property took place with present value in the amount of HRK 647 thousand, acquisition value of HRK 1,002 thousand and provisions of HRK 355 thousand, and relates to land plot in the amount of HRK 0 thousand, acquisition value and provisions of HRK 160 thousand, buildings in the amount of HRK 171 thousand, acquisition value of HRK 171 thousand and provisions of HRK 0 thousand and apartments in the amount of HRK 405 thousand, acquisition value of HRK 613 thousand and provisions of HRK 208 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 at the end of 2020 amounted to HRK 1,393 thousand.

In 2020, sale of foreclosed assets took place with present value in the amount of HRK 452 thousand, acquisition value and provisions of HRK 8,923 thousand and provisions of HRK 8,471 thousand, and relates to land plot in the amount of HRK 0 thousand, buildings in the amount of HRK 33 thousand and apartments of HRK 419 thousand.

In 2020, foreclosed assets was transferred to lease on the item Investments in property in the amount of HRK 1,435 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 85 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 34,480 thousand.

Adjustment increase amount for the Group and the Bank that has an effect on the profit or loss stood at HRK 582 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

23. Other assets

| | Group | | | Bank |
|--|--|--|--|--|
| | 31 December 2020 HRK '000 | 31 December 2019 HRK '000 | 31 December 2020 HRK '000 | 31 December 2019 HRK '000 |
| Fees receivable | 28,052 | 27,855 | 28,052 | 27,855 |
| Other receivables | 11,058 | 13,922 | 11,058 | 13,922 |
| Prepaid expenses | 2,315 | 2,537 | 2,115 | 2,397 |
| Accrued income | 17,684 | 9,257 | 17,685 | 9,257 |
| Premium receivables | 1,718 | 4,308 | - | - |
| Receivables for reinsurance commissions | 854 | 1,061 | - | - |
| Receivables for risk assessment fees | 350 | 299 | - | - |
| Leased assets | 2,867 | 5,061 | 2,828 | 4,854 |
| Other assets | 1,778 | 1,085 | 1,740 | 1,073 |
| | <u>66,676</u> | <u>65,385</u> | <u>63,478</u> | <u>59,358</u> |
| Loss allowances | <u>(34,536)</u> | <u>(35,570)</u> | <u>(34,396)</u> | <u>(35,436)</u> |
| | <u>32,140</u> | <u>29,815</u> | <u>29,082</u> | <u>23,922</u> |

Lease assets are recognised in accordance with the application of the IFRS 16 and depreciation during the year stood at HRK 2,121 thousand for the Group and HRK 2,026 thousand for the Bank.

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 December 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 | 6,328 | 2 | 35,667 | 35 | 42,032 | 3,406 | 2 | 35,667 | 35 | 39,110 |
| Loss allowances | (171) | (1) | (34,359) | (5) | (34,536) | (31) | (1) | (34,359) | (5) | (34,396) |
| Balance as of 31 December 2020 | 6,157 | 1 | 1,308 | 30 | 7,496 | 3,375 | 1 | 1,308 | 30 | 4,714 |

| 31 December 2019 | Group | | | | | | | | | Bank |
|---|----------------------------|----------------------------|----------------------------|-------------------------|--------------------------|----------------------------|----------------------------|----------------------------|-------------------------|--------------------------|
| | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | POCI HRK 000 | Total HRK 000 | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | POCI HRK 000 | Total HRK 000 |
| Gross amount | 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

23. Other assets (continued)

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

| | 31 December | Group | 31 December | Bank |
|--------------------------------------|---------------------|----------------------|---------------------|---------------------|
| | 2020 | 31 December | 31 December | 31 December |
| | HRK '000 | 2019 | 2020 | 2019 |
| | | HRK '000 | HRK '000 | HRK '000 |
| Fees receivable | 28,052 | 27,855 | 28,052 | 27,855 |
| Other receivables | 11,058 | 13,922 | 11,058 | 13,922 |
| Premium receivables | 1,718 | 4,308 | - | - |
| Receivables for reinsurance | 854 | 1,061 | - | - |
| Receivables for risk assessment fees | 350 | 299 | - | - |
| | <u>42,032</u> | <u>47,445</u> | <u>39,110</u> | <u>41,777</u> |
| Loss allowance | (34,536) | (35,570) | (34,396) | (35,436) |
| Subtotal – credit risk | <u>7,496</u> | <u>11,875</u> | <u>4,714</u> | <u>6,341</u> |

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

| | Jan 1 - Dec | Group | Jan 1 - Dec | Bank |
|--|----------------------|----------------------|----------------------|----------------------|
| | 31, 2020 | Jan 1 - Dec | 31, 2020 | Jan 1 - Dec |
| | HRK 000 | 31, 2019 | 31, 2020 | 31, 2019 |
| | | HRK 000 | HRK 000 | HRK 000 |
| Balance as of 1 January | 35,570 | 34,118 | 35,436 | 33,883 |
| Net (release)/increase of loss allowances on other assets | (1,032) | 1,561 | (1,001) | 1,584 |
| <i>Total recognised through Income statement (Note 10)</i> | <u>(1,032)</u> | <u>1,561</u> | <u>(1,001)</u> | <u>1,584</u> |
| Write-offs | - | (114) | - | (38) |
| Acquisition of immovable property | (2) | - | (2) | - |
| Net foreign exchange gain/loss on loss allowances | (37) | 7 | (37) | 7 |
| Other adjustments | 37 | (2) | - | - |
| Balance at the end of the reporting period | <u>34,536</u> | <u>35,570</u> | <u>34,396</u> | <u>35,436</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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

24. Deposits from customers

| | 31 December 2020 | Group and Bank |
|--|-------------------------|-------------------------|
| | HRK '000 | 31 December 2019 |
| | | HRK '000 |
| Bank deposits | 626,261 | 1,320 |
| Foreign currency regular accounts of companies | 6 | 6 |
| Foreign currency account of the Ministry of Finance of the Republic of Croatia | 9,114 | 12,874 |
| Foreign currency special purpose accounts of the companies | 25,657 | 22,189 |
| Foreign currency special accounts of foreign financial institutions | 5,685 | 6,244 |
| State institutions' deposits | 279,208 | 121,958 |
| Other deposits | 28,462 | 12,178 |
| | 974,393 | 176,769 |

Bank deposits in 2020 relate mostly to loro deposits of the European Investment Bank (EIB).

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 9,114 thousand (31 December 2019: HRK 6,889 thousand) and the grant funds provided by the GEF aimed at the Programme of issuing bank guarantees for energy efficiency projects within the Energy Efficiency Project of HRK 0 thousand (31 December 2019: HRK 5,985 thousand), all managed by HBOR for and on behalf of the Republic of Croatia.

State institution's demand deposits relate to the Bank's operations carried out for and on behalf of the Ministry of Finance, the Ministry of the Sea, Transport and Infrastructure, the Ministry of Agriculture, the Ministry of Regional Development and 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, reduced by funds used for the intended purpose and account balance on 31 December 2020. amounted to HRK 5,685 thousand (31 December 2019: HRK 6,244 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Borrowings

| | Group and Bank | |
|--------------------------------|--------------------------|--------------------------|
| | 31 December 2020 | 31 December 2019 |
| | HRK '000 | HRK '000 |
| Balance as of 1 January | 14,385,635 | 14,863,426 |
| New borrowings | 4,994,515 | 3,036,226 |
| Repayments | (2,664,047) | (3,581,195) |
| Net foreign exchange gain/loss | 135,991 | 67,178 |
| | <u>16,852,094</u> | <u>14,385,635</u> |
| Accrued interest | 40,720 | 46,498 |
| Deferred fees | (28,879) | (31,680) |
| | <u>16,863,935</u> | <u>14,400,453</u> |

The bank is subject to various financial clauses from the Contract. During 2020 and as of 31 December 2020 the Bank was in compliance with all required financial clauses from the Contract.

26. Debt securities issued

The book value of bonds includes interest.

| Group and Bank | Effective interest rate | Fair value 31 December 2020 | Net book value 31 December 2020 | Fair value 31 December 2019 | Net book value 31 December 2019 |
|-----------------------|--------------------------------|------------------------------------|--|------------------------------------|--|
| | | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Bonds EUR 150 million | 6.37 | - | - | 1,141,506 | 1,114,976 |
| Accrued interest | | - | - | - | 43,374 |
| Deferred fees | | - | - | - | (59) |
| | | <u>-</u> | <u>-</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).

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).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

27. Provisions for guarantees, commitments and other liabilities

| | Group | | Bank | |
|---|--------------------|--------------------|--------------------|--------------------|
| | 31 December | 31 December | 31 December | 31 December |
| | 2020 | 2019 | 2020 | 2019 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Provisions for guarantees and commitments | 45,556 | 57,716 | 45,556 | 57,716 |
| Provisions for other liabilities | 62,500 | 63,064 | 62,240 | 62,915 |
| | 108,056 | 120,780 | 107,796 | 120,631 |

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

| | Group | | Bank | |
|---|------------------------|------------------------|------------------------|------------------------|
| | Jan 1 - Dec 31, | Jan 1 - Dec 31, | Jan 1 - Dec 31, | Jan 1 - Dec 31, |
| | 2020 | 2019 | 2020 | 2019 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance as of 1 January | 57,716 | 261,283 | 57,716 | 261,283 |
| Net increase/(release)of loss allowances on guarantees | 2,184 | (156,368) | 2,184 | (156,368) |
| <i>Total recognised through Income Statement (Note 10)</i> | <i>2,184</i> | <i>(156,368)</i> | <i>2,184</i> | <i>(156,368)</i> |
| Net (release)/increase of loss allowances on commitments | (13,998) | (47,722) | (13,998) | (47,722) |
| Total recognised through Income Statement (Note 10) | (13,998) | (47,722) | (13,998) | (47,722) |
| Net foreign exchange on loss allowances | (346) | 523 | (346) | 523 |
| Balance at the end of the reporting period - Provisions for guarantees and commitments | 45,556 | 57,716 | 45,556 | 57,716 |
| Balance as of 1 January | 63,064 | 60,208 | 62,915 | 60,078 |
| Net (release)/increase of loss allowances on other liabilities | (4,230) | 2,912 | (4,341) | 2,893 |
| <i>Total recognised through Income Statement (Note 10)</i> | <i>(4,230)</i> | <i>2,912</i> | <i>(4,341)</i> | <i>2,893</i> |
| Unrealized actuarial gains/(losses) | 3,666 | (56) | 3,666 | (56) |
| Balance at the end of the reporting period - Provisions for other liabilities | 62,500 | 63,064 | 62,240 | 62,915 |

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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

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

Out of the total provisions for guarantees and commitments, the amount of HRK 8,492 thousand relates to financial institutions (31 December 2019: HRK 5,413 thousand), HRK 35,683 thousand relates to domestic companies (31 December 2019: HRK 52,262 thousand), HRK 1,286 thousand relates to the public sector (31 December 2019: HRK 20 thousand), HRK 95 thousand relates to other (31 December 2019: HRK 21 thousand).

In 2020, provisions for other liabilities for the Group totalled HRK 62,500 thousand (31 December 2019: HRK 63,064 thousand) and for the Bank stood at HRK 62,240 thousand (31 December 2019: HRK 62,915 thousand). The total amount of provisions for other liabilities was comprised of HRK 7,676 thousand for court proceedings initiated against the Bank (31 December 2019: HRK 7,313 thousand), HRK 30,490 thousand for liabilities for the Group and for the Bank based on benefits defined in accordance with IAS 19 Employee Benefits (31 December 2019: HRK 30,490 thousand), and in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets HRK 25,261 thousand for provisions for other liabilities for the Group (31 December 2019: HRK 25,261 thousand) and HRK 25,112 thousand for the Bank (31 December 2019: HRK 25,112 thousand).

The latest actuarial assessment of present value of liabilities based on defined benefits as at 31 December 2020 was performed by a certified actuary. The model took into account mortality, fluctuation of employees, growth rate in defined benefits and discount rate, and the calculations for every employee considered age, gender, years of service, expected mortality and discount rate, i.e. the long-run sustainable yield rate on bonds of the Republic of Croatia.

The applied discount rate that represents the yield rate on bonds sustainable in the long run is 1.50%, whereas it stood at 2.80% in the previous year.

Unrealised actuarial gains/(losses) arising from the calculation of provisions are stated within the framework of other comprehensive income so that net assets or liability may reflect the entire value of deficit or surplus planned.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

28. Other liabilities

| | Group | | Bank | |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 31 December 2020 HRK '000 | 31 December 2019 HRK '000 | 31 December 2020 HRK '000 | 31 December 2019 HRK '000 |
| Liabilities in respect of subsidized interest (a) | 139,722 | 132,912 | 139,722 | 132,912 |
| Deferred recognition of interest income (b) | 198,715 | 162,937 | 198,715 | 162,937 |
| Accrued salaries | 8,382 | 7,480 | 8,146 | 7,285 |
| Liabilities to suppliers | 2,090 | 4,977 | 2,017 | 4,879 |
| Liabilities for prepaid receivables | 24,342 | 4,335 | 24,342 | 4,335 |
| Deferrable premium | 3,650 | 3,560 | - | - |
| Provisions for claims | 5,584 | 5,449 | - | - |
| Provisions for return premiums | 1,143 | 991 | - | - |
| Liabilities to re-insurers | 3,277 | 3,149 | - | - |
| Deferred tax liabilities | 819 | 694 | - | - |
| Corporate income tax-current liability | 151 | 29 | - | - |
| Lease liabilities | 3,453 | 5,944 | 2,893 | 4,926 |
| Other liabilities | 5,065 | 7,280 | 3,777 | 5,973 |
| | 396,393 | 339,737 | 379,612 | 323,247 |

(a) 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 131,273 thousand in respect of the Programme of Preferential Financing through HBOR's Loan Programmes (31 December 2019: HRK 132,912 thousand),
- HRK 3,734 thousand in respect of the Programme Working Capital COVID-19 Measure for SMEs in tourism industry for micro, small and medium-sized entrepreneurs, Ministry of Tourism and Sports (31 December 2019: HRK 0 thousand),
- HRK 4,715 thousand in respect of the Programme Working Capital COVID-19 Measure for entrepreneurs in wood processing and furniture production industry, Ministry of Agriculture (31 December 2019: HRK 0 thousand).

(b) Deferred recognition of interest income of HRK 198,715 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 74,659 thousand (31 December 2019: HRK 13,158 thousand), and in respect of those already in repayment stage amounting to HRK 124,056 thousand (31 December 2019: HRK 149,779 thousand) (see Note 4.1. L. Government grants).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

29. Founder's capital

Under the HBOR Act, the prescribed founder's capital should amount to HRK 7,000,000 thousand, paid from the State Budget and from other sources as specified by separate laws.

The schedule of annual amounts of payment and the time schedule of payments out of the State Budget into the capital are not set in advance, but are determined by the Croatian Parliament as part of the process of adoption of the State Budget of the Republic of Croatia.

Within its Accounting policies, the Group has set out its objectives of capital management, category of capital managed by the Bank as well as measuring and assessing the policies for capital management. Capital management is described and presented in Note 37.

Founder's capital of the subsidiary Hrvatsko kreditno osiguranje d.d. amounts to HRK 37,500 thousand and is 100% owned by the Bank, and the founder's capital of the company Poslovni info servis d.o.o. amounts to HRK 300 thousand and is 100% owned by Hrvatsko kreditno osiguranje d.d.. The capital of both companies is subscribed and paid in full.

30. Guarantee fund

| Group and Bank | HRK '000 |
|---------------------------------------|-----------------|
| Balance as of 1 January 2019 | 12,146 |
| Net foreign exchange | 40 |
| Balance as of 31 December 2019 | 12,186 |
| Net foreign exchange | 155 |
| Balance as of 31 December 2020 | 12,341 |

The Guarantee fund of HRK 12,341 thousand and HRK 12,186 thousand as of 31 December 2020 and 2019 respectively, relates to funds of the guarantee fund from Deutsche Investitions- und Entwicklungsgesellschaft (DEG) in respect of a financial contribution (granted funds) for the account of the German Government, which are used for covering contingent losses on guarantees issued for loans granted under the Programme for financing business start-ups in Croatia. The funds of the Guarantee fund are unconditionally contributed and have no maturity. The funds of the Guarantee fund give the Government of the Federal Republic of Germany neither controlling rights nor a right to a share of the operating results of the Group.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

31. Guarantees and commitments

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

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

Group and Bank

| | 31 December 2020 | 31 December 2019 |
|---|-----------------------------|-----------------------------|
| | HRK '000 | HRK '000 |
| Guarantees issued in HRK | 126,469 | 62,102 |
| Guarantees issued in foreign currency | 331,815 | 210,972 |
| Undrawn loans | 4,779,853 | 3,995,159 |
| Open letters of credit | 1,472 | 11,693 |
| EIF – subscribed, not called up capital | 48,236 | 47,632 |
| EIF CROGIP Contracted Liability | 287,683 | 259,858 |
| EIF FRC2 Contracted Liability | 9,487 | 12,362 |
| Other irrevocable contingent liabilities | - | 93 |
| | <u>5,585,015</u> | <u>4,599,871</u> |
| Provisions for guarantees and commitments | <u>(45,556)</u> | <u>(57,716)</u> |
| | <u>5,539,459</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 |
| Gross amount | 4,644,976 | 153,026 | 338,419 | 101,716 | 1,472 | 5,239,609 |
| Loss allowances | (8,659) | (11,523) | (17,525) | (7,849) | - | (45,556) |
| Balance as of 31 December 2020 | <u>4,636,317</u> | <u>141,503</u> | <u>320,894</u> | <u>93,867</u> | <u>1,472</u> | <u>5,194,053</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 |
| 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

31. 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 43%, 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.

By the decision of HBOR's Management Board of 23 October 2020 on accepting the offer to purchase real estate and the Contract on Real Estate Purchase concluded between HBOR and the buyer on 23 November 2020, the real estate was sold and paid on 18 December 2020, when HBOR's obligation in respect of other unmentioned irrevocable contingent liability was paid to the Guarantee Fund of the Export Credit Insurance.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

32. Managed funds for and on behalf of third parties

The Group manages funds on behalf of and for the account of the Ministry of Finance, the Ministry of the Economy and Sustainable Development, the Ministry of the Sea, Transport and Infrastructure, the Ministry of Agriculture, the Ministry of Regional Development and EU Funds, the company Vodovod i kanalizacija d.o.o., Split, the Croatian Agency for SMEs, Innovations and Investments (“HAMAG-BICRO”) and commercial banks, that are mainly used for various reconstruction and development programmes. These assets are separated from the Group’s assets. The income and expense relating to these transactions are charged to the principal, and the Group does not have any other liabilities. The Group charges a fee for part of the services and part of the services are performed free of charge depending on the contract with the customer and taking into account that the stated amounts are insignificant for the Group.

Agency business funds per individual programmes amount to:

| Group and Bank | 31 December 2020 HRK '000 | 31 December 2019 HRK '000 |
|---|--|--|
| Development and Reconstruction of Rural Housing | 19,656 | 19,810 |
| Employment of Former Soldiers | 279,625 | 273,873 |
| Municipal Environmental Infrastructure Investment Program – MEIP | 868,298 | 868,298 |
| Collection of receivables under HAMAG-BICRO guarantees | 121 | 137 |
| Insurance of export transactions | 485,921 | 310,852 |
| Programme of Preferential Financing through HBOR’s Loan Programmes - Ministry of Finance | 131,273 | 132,912 |
| Programme for Regional Development of the Republic of Croatia - loans | 3,504 | 5,183 |
| Renewable Energy Resources Project | 2,709 | 15,444 |
| VIK – EKO account A – dedicated water charge | 718,343 | 680,788 |
| VIK – EKO account B – VAT | 156,729 | 156,502 |
| Programme of Issuing Bank Guarantees for Energy Efficiency Projects – IBRD | - | 5,985 |
| Financing the Establishment of Fishing Infrastructure – Ministry of the Sea, Transport and Infrastructure | 46,665 | 46,665 |
| Micro-Loans with EU Support – commercial banks | 717 | 604 |
| Transactions related to investments in the Economic Co-operation Funds ² | 180,558 | 341,411 |
| ESIF – Growth and Expansion Loans | 845,578 | 835,953 |
| ESIF - Energy Efficiency in Public Sector Buildings | 202,743 | 47,985 |
| ESIF - Loans for Public Lighting | 76,613 | 38,318 |
| Investment loans for rural development | 139,970 | 136,594 |
| Working Capital COVID-19 Measure for SMEs in tourism industry | 3,734 | - |
| Working Capital COVID-19 Measure for entrepreneurs in wood processing and furniture production industry | 4,715 | - |
| Working Capital COVID-19 Measure for entrepreneurs in wood processing and furniture production industry - insurance premium subsidy | 8,635 | - |
| Working Capital for rural development | 71,291 | - |
| | 4,247,398 | 3,917,314 |

² The fair value of net assets value of the Economic Co-operation Funds in 2020 is recognised on the basis of the latest available data and does not represent the final fair value, whereas, in 2019, the amount was recognised in accordance with the audited financial statements.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

33. 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.

As of 31 December 2020 and 31 December 2019 balances 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 December 2020 | 31 December 2020 | 31 December 2019 | 31 December 2019 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Owner | 3,560,948 | 1,775,799 | 3,575,330 | 203,649 |
| Government funds, executive authorities and agencies | 3,424,357 | 169,844 | 1,351,888 | 62,057 |
| State-owned companies | 1,535,839 | 1,322 | 1,154,176 | 27 |
| Associates | 7 | 5 | 7 | - |
| Key management personnel | 253 | 2,204 | 3,802 | 1,667 |
| Total | 8,521,404 | 1,949,174 | 6,085,203 | 267,400 |

| Group | Income | Expense | Income | Expense |
|--|---------------------|---------------------|---------------------|---------------------|
| | Jan 1 – Dec 31 2020 | Jan 1 – Dec 31 2020 | Jan 1 – Dec 31 2019 | Jan 1 – Dec 31 2019 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Owner | 53,985 | 10,656 | 56,720 | 10,155 |
| Government funds, executive authorities and agencies | 93,322 | 4,510 | 36,806 | 814 |
| State-owned companies | 89,269 | 16,186 | 62,038 | 37,007 |
| Associates | 1,644 | - | 230 | 1 |
| Key management personnel | 61 | 7,954 | 203 | 9,322 |
| Total | 238,281 | 39,306 | 155,997 | 57,299 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

33. Related-party transactions (continued)

a) Related-party transactions (continued)

| Bank | Assets | | Liabilities | |
|--|------------------|------------------|------------------|------------------|
| | 31 December 2020 | 31 December 2020 | 31 December 2019 | 31 December 2019 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Owner | 3,560,948 | 1,775,799 | 3,575,330 | 203,649 |
| Government funds, executive authorities and agencies | 3,371,905 | 169,665 | 1,312,254 | 62,004 |
| State-owned companies | 1,535,832 | 1,319 | 1,154,165 | 23 |
| Subsidiary companies | 36,124 | - | 36,124 | - |
| Associates | 7 | 5 | 7 | - |
| Key management personnel | 253 | 2,096 | 3,726 | 1,562 |
| Total | 8,505,069 | 1,948,884 | 6,081,606 | 267,238 |

| Bank | Income | | Expense | |
|--|---------------------|---------------------|---------------------|---------------------|
| | Jan 1 – Dec 31 2020 | Jan 1 – Dec 31 2020 | Jan 1 – Dec 31 2019 | Jan 1 – Dec 31 2019 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Owner | 53,985 | 10,656 | 56,720 | 10,155 |
| Government funds, executive authorities and agencies | 92,180 | 4,482 | 35,443 | 650 |
| State-owned companies | 89,269 | 16,132 | 62,038 | 36,933 |
| Subsidiary companies | - | - | - | - |
| Associates | 1,644 | - | 230 | 1 |
| Key management personnel | 60 | 6,491 | 200 | 7,879 |
| Total | 237,138 | 37,761 | 154,631 | 55,618 |

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

Liabilities include liabilities for deposits, salaries, provisions on behalf of retirement and jubilee awards of key management and other liabilities.

Income includes interest income, fee income and reversal of impairment losses and provisions.

Expenses include expenses for key management salaries, impairment loss and provisions.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

33. Related-party transactions (continued)

b) Collateral received

| | Group | | Bank | |
|-------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| The Republic of Croatia | 5,150,786 | 3,445,178 | 5,148,197 | 3,444,955 |
| State agencies | 608,048 | 399,285 | 608,048 | 399,285 |
| Total | 5,758,834 | 3,844,463 | 5,756,245 | 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.

Pursuant to the Quota Reinsurance Contract between HBOR, in the name and for the account of the Republic of Croatia, and HKO d.d., reinsurance is carried out, i.e. cover is provided for a proportional part (quota reinsurance) of political and commercial risks under export loans and receivables arising from the export of goods and services. The Reinsurer covers all non-marketable (non-market) risks assumed by the Insurer, i.e. Croatian Credit Insurance, joint stock insurance company, in the range from 15% to 90% of the insured amount.

c) Salaries of key management personnel

Key members of the Group's and the Bank's management include members of the Management Board, senior executive directors, head of the Management Board Office, executive directors, assistant director, advisors to the Management Board and an authorised agent (proxy).

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. In 2020, salaries for the Group amounted to HRK 7,778 thousand (31 December 2019: HRK 9,100 thousand), and for the Bank HRK 6,413 thousand (31 December 2019: HRK 7,771 thousand).

Remuneration for the work of the members of the Supervisory Board in 2020 amounted to HRK 176 thousand for the Group (31 December 2019: HRK 222 thousand) and for the Bank HRK 78 thousand (31 December 2019: HRK 108 thousand) and it relates to the members of supervisory boards at associates and subsidiaries who were appointed by HBOR.

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. 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, 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.

34.1. 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

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

Liquidity risk

The basic principles for managing HBOR's liquidity risk are determined in the internal documents as well as in the decisions and conclusions made by the Supervisory Board, the Management Board and the Asset and Liability Management Committee.

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.1. 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.

Because of the need to timely react to the challenges posed by the coronavirus crisis, HBOR has provided sufficient liquidity funds to provide support to the economy in the form of funding sources for loans earmarked for this purpose. Operations have been ensured within the established liquidity reserve limit in the conditions of a significant, and in the following period expected, reduction of collection of granted loans as a consequence of moratoriums. Timely provision of funds in the conditions of non-collection of granted loans has been considered through the scenarios of liquidity projections made under the assumptions of different percentages of non-collection and different durations of moratoriums. These scenarios have been the basis for HBOR's decision-making on how to proceed with respect to moratoriums.

Interest rate risk

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. 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. 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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.1. Overview of the most important risks (continued)

Operational risk (continued)

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.

The Committee for IT management was established in order to monitor IT system performance with the purpose of IT resources management by setting the appropriate level of efficiency and security of IT for providing, among other things, appropriate management of risks arising from IT technology utilisation. The IT system security control function is in charge of monitoring the security of the IT system. Within this function, a system for the management of business continuity was established.

During 2020, the Bank's operations were affected by two significant operational risk events – the Covid-19 pandemic and the strong earthquake in Zagreb. As part of its business continuity management procedures, the Bank promptly formed a crisis team and took the necessary steps for the recovery of its operations. In order to continue its business operations at the beginning of the pandemic, work from home was determined for all employees, and all activities were carried out and necessary resources provided to recover business processes and to run business without any interruption. Furthermore, the main office building of the Bank was damaged in the earthquake, and procedures were promptly carried out to assess the usability of the building, remove the equipment and documents and to relocate business operations to other business locations.

Crisis events are recorded in the database for operational risk, where the financial effects of these events are continuously updated.

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.

The crisis events of operational risk (pandemic and earthquake) did not expose the Bank to an increase in the risk of externalisation, and it was established that there were no interruptions of key externalised services („core“ banking applications and data centre) caused by the crisis events.

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.2. 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 and currency risk within the framework of the Liquidity Risk Management Ordinance, the Currency Risk Management Ordinance and the Interest Rate Risk Management Procedures, Trading Book Ordinance, 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,
- **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 organisational unit is responsible for defining, evaluating or measuring, monitoring and controlling the risks to which the Group is exposed in the course of its business.

The Risk Management unit carries out its role by performing risk analyses and evaluations or measurements, developing risk management ordinances, procedures, policies 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.

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

for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.2. Strategy and risk management systems (continued)

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 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, the impact of changes in foreign exchange rates and interest rates on operating results, 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.

34.3. 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.

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

for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk -(continued)

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.

In order to mitigate the negative consequences of the coronavirus pandemic, the Bank, with the aim of preserving the level of economic activity and liquidity of economic entities and most importantly, preserving jobs, enabled rescheduling of obligations for all clients and a moratorium in the period from 1 April 2020 to 30 June 2020, for outstanding liabilities due from 1 March 2020 to 30 June 2020. As the negative impact of the coronavirus pandemic on the economy prolonged, the Bank introduced an additional moratorium option for all clients on the liabilities maturing from 1 July 2020 to 30 September 2020, for the clients who can prove that their operations have been affected by the coronavirus pandemic (COVID score, etc.) a moratorium on liabilities maturing from 1 July 2020 to 31 December 2020, whereas for all clients engaged in tourism activities, a moratorium on liabilities maturing from 1 July 2020 to 30 June 2021.

In addition to the rescheduling and the moratorium, the Bank introduced new liquidity loans in order to preserve the level of economic activity and liquidity:

- for small and medium-sized enterprises through framework loans to commercial banks,
- for large entrepreneurs through loans according to the risk-sharing model and
- direct loans for particularly affected clients operating in the strategic branch - tourism.

Together with the Ministry of Tourism, the Bank provided entrepreneurs in tourism with favourable direct loans for necessary liquidity by securing funds from the interest rate subsidy fund. Due to the approval of a larger number of loans in a relatively short time, certain activities in the manner of implementation and loan application procedure prescribed by the Credit Risk Management Ordinance that are covered by separate Instructions, have been reduced.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. 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.

Implemented moratoriums

In order to assess the impact of the crisis on the portfolio of its clients, the Bank reviews the operations of its clients, especially those affected by the COVID-19 crisis, who requested a moratorium or some kind of COVID-measures. According to the interpretations of the accounting authorities, the stated COVID-19 moratoriums do not automatically mean that there has been a significant increase in credit risk. The Bank assesses the performance of its clients that are in a moratorium by considering whether the difficulties faced by the clients are only of a temporary nature, in which case the approval of a moratorium did not represent a significant increase in credit risk.

Under the initial terms and conditions of the moratorium, for loan receivables maturing from 1 March 2020 until 30 June 2020, 784 moratorium requests (number of loan IDs) were registered in HBOR's business records.

Under the new terms and conditions of the moratorium, 548 moratorium requests from the borrowers that accepted the initial moratorium were implemented, and 46 moratorium requests from the borrowers that did not accept the terms and conditions of the initial moratorium. Additionally, according to individual decisions of the Management Board, 821 requests for a moratorium from borrowers were implemented, both through commercial banks (799 requests) and directly (22 requests).

The total amount of principal put into grace period on the basis of the implemented moratoriums amounts to HRK 12,822 million.

Adverse effects of the coronavirus pandemic (COVID-19)

The coronavirus (COVID-19) pandemic has affected and is expected to continue to affect negatively the world economy and economic activities and conditions in almost all countries in the world, including Croatia. Among other challenges, the Republic of Croatia has recorded an increase in unemployment and a decline in production, while public debt has significantly increased thanks to state aid. In addition, there has been an increase in the uncertainty of receivables collection both from natural persons and companies, especially those in the affected sectors, volatility in financial markets, exchange rate volatility as well as the decline in assets and investment values.

During the year, the Bank closely monitored developments related to the COVID-19 pandemic, including the spread of the virus and related operational and economic effects. Mandatory measures as a consequence of the lockdown introduced by the Government resulted in a sharp and serious decline in GDP in the Croatian economy. However, the Government support measures have helped to mitigate negative effects to some extent. As mentioned earlier, the Bank also played an important role in maintaining economic activity and introduced a number of measures to help clients in the industries significantly affected by the crisis in order to facilitate liquidity and operations.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

Adverse effects of the coronavirus pandemic (COVID-19) (continued)

Macroeconomic forecasts show that long-term impacts will result in higher unemployment and a higher number of defaulting clients. However, the credit rating of a very small number of the Bank's clients has deteriorated, mainly as a result of government and banking support. The analysis of clients' delays in payment of up to 30 days shows that, in case of loans to other customers, the clients still have the ability to repay loans as in 2019. Also, the average portfolio risk profile remained mostly stable during the year and did not deteriorate in line with the macroeconomic crisis. The bank expects that the deteriorating economic outlook will lead to a larger number of defaults and impairment. Consequently, the Bank has included in the calculation of the ECL updated macroeconomic parameters, for which it adjusted the PD rate in its forecasts in order to ensure that all potential future adverse effects are included in the ECL.

In order for the expected credit losses to include the expected increase in clients' credit risk due to COVID-19 crisis, the probability of default rate (hereinafter: PD) as at 30 June 2020 in the pessimistic scenario increased by 35% compared to the base rate of PD, while the probabilities of realisation of the scenario did not change (baseline 50%, optimistic and pessimistic 25%). The base rate of PD is the historical rate calculated on the data on HBOR's loan portfolio in the period 2012 – 2019. PD is stressed for homogenous groups of direct clients, which resulted in additional provisions in the amount of about HRK 46 million.

In order to verify the adequacy of provisions as at 31 December 2020, the increase in PD rate was confirmed by a calculation in the macroeconomic model, combining data of the Croatian Bureau of Statistics (CBS) and PDs with a 74% correlation and using available CBS forecasts on the expected fall in GDP rate in 2020. As at 31 December 2020, reservations on this basis amounted to HRK 43.3 million.

The Bank continues to monitor the situation, considering whether there will be new waves of the COVID-19 pandemic, whether COVID-19 vaccines approved by regulatory bodies will be effective, whether the desired vaccination results will be achieved, whether new strains of COVID-19 will emerge and whether, and in which way, additional restrictions will be imposed and/or the existing ones extended.

The economic environment is still uncertain; therefore, in the future, there may be additional impairments in the future as a result of the long duration of the COVID-19 pandemic and the application of measures to combat the spread of the virus, as well as the ineffectiveness of the vaccine against COVID-19.

34.3.1. 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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

34.3.2. 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.

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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

34.3.2. Impairment assessment (continued)

34.3.2.1. Definition of default status and exit from default status

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

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

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

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

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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

34.3.2. Impairment (continued)

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

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.

34.3.2.2. 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 analysed:

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

34.3.2. Impairment assessment (continued)

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

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.

34.3.2.3. 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).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

34.3.2. Impairment assessment (continued)

34.3.2.4. 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.

34.3.2.5. 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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

34.3.2. Impairment assessment (continued)

34.3.2.5. Significant increase in credit risk (continued)

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.

34.3.2.6. 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.

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

34.3.2. Impairment assessment (continued)

34.3.3. 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 (employment rate), correlations on total PDs have been established for all homogenous groups.

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.

34.3.4. 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%.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

34.3.5. 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.

34.3.6. 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 December 2020, the highest credit exposure of the Group to one debtor equalled HRK 2,675,492 thousand and of the Bank HRK 2,669,528 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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

34.3.6. Analysis of risk concentration (continued)

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 one bank.

34.3.7. 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.

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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

34.3.7. Risk-Sharing Model (continued)

- 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.
- As part of measures to help the economy due to the coronavirus pandemic, it was possible to grant new liquidity loans to entrepreneurs that were severely affected by the crisis caused by the coronavirus pandemic under the risk-sharing model with commercial banks. Due to the expected short deadline for processing of a larger number of loan applications, the existing loan procedure prescribed by the Credit Risk Management Ordinance has been accelerated and reduced for this purpose

34.3.8. Collaterals and other credit quality (creditworthiness) improvement

Collateral for the Bank's placements are:

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

All Group placements have to be secured with obligatory collateral. Low 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.

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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

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

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.

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.

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

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

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. For liquidity loans directly approved to entrepreneurs in the tourism industry, that have been strongly affected by the crisis caused by the coronavirus pandemic, the collateral coverage of at least 50% of the loan has been made acceptable. The same coverage is provided also to entrepreneurs in other industries to whom the so-called COVID working capital loans are financed under risk-sharing models.

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,
- for liquidity loans to entrepreneurs that have been strongly affected by the crisis caused by the coronavirus pandemic, the same instruments taken by the bank have been accepted as collateral provided that the collateral covers at least 50% of the loan.

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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure

The table below shows the highest net credit risk exposures in the Statement of Financial Position and in guarantees and commitments as of the reporting date, before the effect of mitigation through collateral received:

| | Group | | Bank | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | Highest exposure | Highest exposure | Highest exposure | Highest exposure |
| | 31 December 2020 | 31 December 2019 | 31 December 2020 | 31 December 2019 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | |
| Cash on hand and current accounts with banks | 1,659,111 | 884,402 | 1,653,157 | 881,482 |
| Deposits with other banks | 7,337 | 553,470 | 7,337 | 553,470 |
| Loans to financial institutions | 8,842,580 | 9,447,706 | 8,842,580 | 9,447,706 |
| Loans to other customers | 14,796,179 | 13,699,634 | 14,796,179 | 13,699,634 |
| Financial assets at fair value through profit or loss | 2,956 | 2,234 | 2,956 | 2,234 |
| Financial assets at fair value through other comprehensive income | 3,079,056 | 1,552,565 | 3,026,618 | 1,512,396 |
| Debt instruments at amortised cost | - | 457 | - | - |
| Other assets | 7,496 | 11,875 | 4,714 | 6,341 |
| Total | 28,394,715 | 26,152,343 | 28,333,541 | 26,103,263 |
| Guarantees and commitments | | | | |
| Guarantees issued in HRK | 125,204 | 61,481 | 125,204 | 61,481 |
| Issued guarantees in foreign currency | 314,842 | 194,737 | 314,842 | 194,737 |
| Open letters of credit in foreign currency | 1,472 | 11,693 | 1,472 | 11,693 |
| Undrawn loans | 4,752,535 | 3,954,299 | 4,752,535 | 3,954,299 |
| Other irrevocable contingent liabilities | - | 93 | - | 93 |
| Total | 5,194,053 | 4,222,303 | 5,194,053 | 4,222,303 |
| Total credit risk exposure | 33,588,768 | 30,374,646 | 33,527,594 | 30,325,566 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

| Group | Republic of Croatia | EU countries | Other countries | Total |
|---|----------------------------|---------------------|------------------------|-------------------|
| 31 December 2020 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | |
| Cash on hand and current accounts with banks | 1,651,267 | 7,532 | 312 | 1,659,111 |
| Deposits with other banks | - | 7,337 | - | 7,337 |
| Loans to financial institutions | 8,842,580 | - | - | 8,842,580 |
| Loans to other customers | 14,016,403 | - | 779,776 | 14,796,179 |
| Financial assets at fair value through profit or loss | 2,956 | - | - | 2,956 |
| Financial assets at fair value through other comprehensive income | 3,077,679 | 1,377 | - | 3,079,056 |
| Debt instruments at amortised cost | - | - | - | - |
| Other assets | 6,352 | 94 | 1,050 | 7,496 |
| Total | 27,597,237 | 16,340 | 781,138 | 28,394,715 |
| Guarantees and commitments | | | | |
| Guarantees issued in HRK | 125,204 | - | - | 125,204 |
| Issued guarantees in foreign currency | 314,842 | - | - | 314,842 |
| Open letters of credit in foreign currency | 1,472 | - | - | 1,472 |
| Undrawn loans | 4,731,158 | - | 21,377 | 4,752,535 |
| Total | 5,172,676 | - | 21,377 | 5,194,053 |
| Total credit risk exposure | 32,769,913 | 16,340 | 802,515 | 33,588,768 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

| Group | Republic of Croatia | EU countries | Other countries | Total |
|---|----------------------------|---------------------|------------------------|-------------------|
| 31 December 2019 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| 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 amortised 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

| Bank | Republic of | EU | Other | Total |
|---|--------------------|------------------|------------------|-------------------|
| 31 December 2020 | Croatia | countries | countries | HRK '000 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | |
| Cash on hand and current accounts with banks | 1,645,313 | 7,532 | 312 | 1,653,157 |
| Deposits with other banks | - | 7,337 | - | 7,337 |
| Loans to financial institutions | 8,842,580 | - | - | 8,842,580 |
| Loans to other customers | 14,016,403 | - | 779,776 | 14,796,179 |
| Financial assets at fair value through profit or loss | 2,956 | - | - | 2,956 |
| Financial assets at fair value through other comprehensive income | 3,025,241 | 1,377 | - | 3,026,618 |
| Other assets | 4,714 | - | - | 4,714 |
| Total | 27,537,207 | 16,246 | 780,088 | 28,333,541 |
| Guarantees and commitments | | | | |
| Guarantees issued in HRK | 125,204 | - | - | 125,204 |
| Issued guarantees in foreign currency | 314,842 | - | - | 314,842 |
| Open letters of credit in foreign currency | 1,472 | - | - | 1,472 |
| Undrawn loans | 4,731,158 | - | 21,377 | 4,752,535 |
| Total | 5,172,676 | - | 21,377 | 5,194,053 |
| Total credit risk exposure | 32,709,883 | 16,246 | 801,465 | 33,527,594 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

| Bank | Republic of | EU | Other | Total |
|---|--------------------|------------------|------------------|-------------------|
| 31 December 2019 | Croatia | countries | countries | HRK '000 |
| | HRK '000 | HRK '000 | HRK '000 | 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. 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 December | 31 December | 31 December | 31 December |
| | 2020 | 2020 | 2019 | 2019 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Financial intermediation and insurance | 13,600,142 | - | 13,082,662 | - |
| Water and electric supply and other infrastructure | 1,927,789 | 1,136,584 | 1,859,000 | 1,571,256 |
| Tourism | 3,821,623 | 560,776 | 3,318,197 | 554,485 |
| Transport, warehousing and connections | 2,308,679 | 645,451 | 1,958,455 | 764,034 |
| Shipbuilding | 1,262,057 | 42,694 | 1,227,960 | 12,190 |
| Agriculture and fishery | 564,526 | 173,996 | 478,368 | 167,299 |
| Food industry | 1,024,670 | 139,475 | 864,720 | 500,569 |
| Construction industry | 2,442,149 | 185,442 | 1,217,933 | 113,301 |
| Other industry | 422,415 | 161,533 | 354,512 | 92,440 |
| Public administration | 3,065,554 | 3,064,916 | 3,040,733 | 3,040,152 |
| Education | 36,722 | 34,084 | 40,702 | 37,768 |
| Manufacture of basic metals and fabricated metal products, except machinery and equipment | 203,214 | 44,217 | 182,417 | 10,727 |
| Manufacture of chemicals and chemical products | 95,217 | 24,827 | 70,214 | 54,088 |
| Manufacture of other non-metallic mineral products | 168,235 | 53,238 | 175,818 | 62,144 |
| Pharmaceutical industry | 439,106 | 260,851 | 392,460 | 1,129 |
| Manufacture of motor vehicles, trailers and semi-trailers | 219,756 | 21,954 | 16,356 | - |
| Other | 1,986,914 | 306,054 | 2,094,139 | 329,475 |
| Total credit risk exposure | 33,588,768 | 6,856,092 | 30,374,646 | 7,311,057 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. 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 December 2020 HRK '000 | 31 December 2020 HRK '000 | 31 December 2019 HRK '000 | 31 December 2019 HRK '000 |
| Financial intermediation and insurance | 13,593,044 | - | 13,075,404 | - |
| Water and electric supply and other infrastructure | 1,927,789 | 1,136,584 | 1,858,999 | 1,571,255 |
| Tourism | 3,821,623 | 560,776 | 3,318,194 | 554,481 |
| Transport, warehousing and connections | 2,308,501 | 645,273 | 1,958,417 | 763,997 |
| Shipbuilding | 1,262,057 | 42,694 | 1,227,960 | 12,190 |
| Agriculture and fishery | 564,506 | 173,976 | 478,368 | 167,299 |
| Food industry | 1,024,593 | 139,397 | 864,559 | 500,409 |
| Construction industry | 2,441,981 | 185,274 | 1,217,783 | 113,151 |
| Other industry | 422,077 | 161,194 | 354,511 | 92,440 |
| Public administration | 3,015,472 | 3,014,834 | 3,000,995 | 3,000,414 |
| Education | 36,722 | 34,084 | 40,702 | 37,768 |
| Manufacture of basic metals and fabricated metal products, except machinery and equipment | 203,139 | 44,142 | 182,351 | 10,661 |
| Manufacture of chemicals and chemical products | 95,217 | 24,828 | 70,192 | 54,066 |
| Manufacture of other non-metallic mineral products | 168,235 | 53,238 | 175,818 | 62,144 |
| Pharmaceutical industry | 437,600 | 259,346 | 391,331 | - |
| Manufacture of motor vehicles, trailers and semi-trailers | 219,756 | 21,954 | 16,356 | - |
| Other | 1,985,282 | 304,422 | 2,093,626 | 328,962 |
| Total credit risk exposure | 33,527,594 | 6,802,016 | 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

The fair value of collateral for the Group in 2020 amounted to HRK 26,732,676 thousand (31 December 2019: HRK 23,063,589 thousand) and for the Bank HRK 26,725,578 thousand (31 December 2019: HRK 23,056,329 thousand).

Net highest exposure as at 31 December 2020 for the Group amounted to HRK 6,856,092 thousand (31 December 2019: HRK 7,311,057 thousand) and for the Bank HRK 6,802,016 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 December 2020, the credit risk of HRK 4,623,158 thousand for the Group (31 December 2019: HRK 4,529,750 thousand) and HRK 4,573,075 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 537,474 thousand (31 December 2019: HRK 2,068,112 thousand), from local (regional) authorities of HRK 807,097 thousand (31 December 2019: HRK 708,453 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 204,135 thousand (31 December 2019: HRK 204,175 thousand), government funds of HRK 13 thousand (31 December 2019: HRK 86 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 3,074,439 thousand for the Group and HRK 3,024,356 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

Credit risk quality according to type of financial assets

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

| Group | | | | | | | Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 | Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 | Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 | Net exposure of portfolio after the effect of mitigation through collateral received POCI | Not subject to IFRS 9 after the effect of mitigation through collateral received | Net exposure of total portfolio after the effect of mitigation through collateral received |
|---|--|--|--|--|-----------------------|---------------------------------|--|--|--|---|--|--|
| 31 December 2020 | Net exposure of portfolio - risk Stage 1 | Net exposure of portfolio - risk Stage 2 | Net exposure of portfolio - risk Stage 3 | Net exposure of portfolio of risk POCI | Not subject to IFRS 9 | Net exposure of total portfolio | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | | | | | | | | | |
| Cash on hand and current accounts with banks | 1,659,111 | - | - | - | - | 1,659,111 | - | - | - | - | - | - |
| Deposits with other banks | 7,337 | - | - | - | - | 7,337 | - | - | - | - | - | - |
| Loans to financial institutions | 8,613,679 | 219,109 | 9,792 | - | - | 8,842,580 | - | - | - | - | - | - |
| Loans to other customers | 11,126,079 | 1,089,538 | 1,495,922 | 1,084,640 | - | 14,796,179 | 2,689,969 | 71,907 | 272,269 | 53,250 | - | 3,087,395 |
| Financial assets at fair value through profit or loss | 298 | - | - | - | 2,658 | 2,956 | - | - | - | - | 2,658 | 2,658 |
| Financial assets at fair value through other comprehensive income | 3,077,679 | - | 1,377 | - | - | 3,079,056 | 3,077,679 | - | 1,377 | - | - | 3,079,056 |
| Other assets | 6,157 | 1 | 1,308 | 30 | - | 7,496 | 2,417 | - | 1,308 | 29 | - | 3,754 |
| Total | 24,490,340 | 1,308,648 | 1,508,399 | 1,084,670 | 2,658 | 28,394,715 | 5,770,065 | 71,907 | 274,954 | 53,279 | 2,658 | 6,172,863 |
| Guarantees and commitments | | | | | | | | | | | | |
| Guarantees issued in HRK | 106,162 | - | 19,042 | - | - | 125,204 | 50,130 | - | 17,670 | - | - | 67,800 |
| Issued guarantees in foreign currency | 10,871 | 3,012 | 300,959 | - | - | 314,842 | 1,591 | - | 104,863 | - | - | 106,454 |
| Open letters of credit in foreign currency | - | - | - | - | 1,472 | 1,472 | - | - | - | - | - | - |
| Undrawn loans | 4,519,284 | 138,491 | 893 | 93,867 | - | 4,752,535 | 475,581 | 26,417 | 889 | 6,088 | - | 508,975 |
| Total | 4,636,317 | 141,503 | 320,894 | 93,867 | 1,472 | 5,194,053 | 527,302 | 26,417 | 123,422 | 6,088 | - | 683,229 |
| Total credit risk exposure | 29,126,657 | 1,450,151 | 1,829,293 | 1,178,537 | 4,130 | 33,588,768 | 6,297,367 | 98,324 | 398,376 | 59,367 | 2,658 | 6,856,092 |

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. 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 | | Net exposure of portfolio - risk Stage 2 | | Net exposure of portfolio - risk Stage 3 | | Net exposure of portfolio - risk POCI | | Net exposure of portfolio - risk POCI | | Net exposure of portfolio - risk POCI | | Net exposure of portfolio - risk POCI | | Net exposure of portfolio - risk POCI | | Net exposure of portfolio - risk POCI | | Net exposure of portfolio - risk POCI | | Net exposure of portfolio - risk POCI | | |
|---|--|------------------|--|------------------|--|-------------------|---------------------------------------|----------------|---------------------------------------|----------------|---------------------------------------|------------------|---------------------------------------|----------|---------------------------------------|----------|---------------------------------------|----------|---------------------------------------|----------|---------------------------------------|----------|---|
| 31 December 2019 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | 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 | 884,402 | - | - | - | - | - | 884,402 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 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 | 597,289 | - | 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 | 1,549,468 | 875 | 2,222 | - | - | 1,552,565 | 1,549,468 | 875 | 2,222 | - | - | 1,552,565 | - | - | - | - | - | - | - | - | - | - | - |
| Debt instruments at amortised cost | 457 | - | - | - | - | 457 | 457 | - | - | - | - | 457 | - | - | - | - | - | - | - | - | - | - | - |
| Other assets | 10,126 | 55 | 1,656 | 38 | - | 11,875 | 1,195 | 50 | 1,345 | - | - | 2,590 | - | - | - | - | - | - | - | - | - | - | - |
| Total | 22,445,338 | 1,210,888 | 1,429,597 | 1,064,286 | 2,234 | 26,152,343 | 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 | - | - | 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 | 25,988,136 | 1,589,822 | 1,592,879 | 1,189,882 | 13,927 | 30,374,646 | 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. 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 | | | | | | | | | | | | |
|---|--|--|--|--|--|-----------------------|--|--|--|--|--|--|
| 31 December 2020 | | Net exposure of portfolio - risk Stage 1 | Net exposure of portfolio - risk Stage 2 | Net exposure of portfolio - risk Stage 3 | Net exposure of portfolio of risk POCI | Not subject to IFRS 9 | Net exposure of portfolio after the effect of mitigation through collateral received | Net exposure of portfolio after the effect of mitigation through collateral received | Net exposure of portfolio after the effect of mitigation through collateral received | Net exposure of portfolio after the effect of mitigation through collateral received | Not subject to IFRS 9 after the effect of mitigation through collateral received | Net exposure of total portfolio after the effect of mitigation through collateral received |
| | | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | | | | | | | | | |
| Cash on hand and current accounts with banks | | 1,653,157 | - | - | - | - | 1,653,157 | - | - | - | - | - |
| Deposits with other banks | | 7,337 | - | - | - | - | 7,337 | - | - | - | - | - |
| Loans to financial institutions | | 8,613,679 | 219,109 | 9,792 | - | - | 8,842,580 | - | - | - | - | - |
| Loans to other customers | | 11,126,079 | 1,089,538 | 1,495,922 | 1,084,640 | - | 14,796,179 | 2,689,969 | 71,907 | 272,269 | 53,250 | 3,087,395 |
| Financial assets at fair value through profit or loss | | 298 | - | - | - | 2,658 | 2,956 | - | - | - | 2,658 | 2,658 |
| Financial assets at fair value through other comprehensive income | | 3,025,241 | - | 1,377 | - | - | 3,026,618 | 3,025,242 | - | 1,377 | - | 3,026,619 |
| Other assets | | 3,375 | 1 | 1,308 | 30 | - | 4,714 | 778 | - | 1,308 | 29 | 2,115 |
| Total | | 24,429,166 | 1,308,648 | 1,508,399 | 1,084,670 | 2,658 | 28,333,541 | 5,715,989 | 71,907 | 274,954 | 53,279 | 6,118,787 |
| Guarantees and commitments | | | | | | | | | | | | |
| Guarantees issued in HRK | | 106,162 | - | 19,042 | - | - | 125,204 | 50,130 | - | 17,670 | - | 67,800 |
| Issued guarantees in foreign currency | | 10,871 | 3,012 | 300,959 | - | - | 314,842 | 1,591 | - | 104,863 | - | 106,454 |
| Open letters of credit in foreign currency | | - | - | - | - | 1,472 | 1,472 | - | - | - | - | - |
| Undrawn loans | | 4,519,284 | 138,491 | 893 | 93,867 | - | 4,752,535 | 475,581 | 26,417 | 889 | 6,088 | 508,975 |
| Total | | 4,636,317 | 141,503 | 320,894 | 93,867 | 1,472 | 5,194,053 | 527,302 | 26,417 | 123,422 | 6,088 | 683,229 |
| Total credit risk exposure | | 29,065,483 | 1,450,151 | 1,829,293 | 1,178,537 | 4,130 | 33,527,594 | 6,243,291 | 98,324 | 398,376 | 59,367 | 6,802,016 |

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. 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 after the effect of mitigation through collateral received | Net exposure of portfolio after the effect of mitigation through collateral received | Net exposure of portfolio after the effect of mitigation through collateral received | Net exposure of portfolio after the effect of mitigation through collateral received | Not subject to IFRS 9 after the effect of mitigation through collateral received | Net exposure of total portfolio after the effect of mitigation through collateral received |
|---|--|--|--|--|-----------------------|---------------------------------|--|--|--|--|--|--|
| 31 December 2019 | Net exposure of portfolio - risk Stage 1 | Net exposure of portfolio - risk Stage 2 | Net exposure of portfolio - risk Stage 3 | Net exposure of portfolio of risk POCI | Not subject to IFRS 9 | Net exposure of total portfolio | Stage 1 | Stage 2 | Stage 3 | POCI | HRK '000 | HRK '000 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | | | | | | | | | |
| Cash on hand and current accounts with banks | 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 | 597,289 | - | 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

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

As at 31 December 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 1,548,515 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 537,283 thousand, local and regional authorities of HRK 807,097 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 204,135 thousand.

As at 31 December 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 3,074,439 thousand for the Group and HRK 3,024,356 thousand for the Bank.

As at 31 December 2020 other assets of HRK 204 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. 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 December 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 | 1,160 | - | - | - | 1,160 |
| Net foreign exchange loss on loss allowances | 9 | - | - | - | 9 |
| Balance at 31 December 2020 | 1,652 | - | - | - | 1,652 |

| 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

i. Allowances (continued)

Cash on hand and current accounts with banks (continued)

| Bank | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 December 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 | 1,155 | - | - | - | 1,155 |
| Net foreign exchange loss on loss allowances | 9 | - | - | - | 9 |
| Balance at 31 December 2020 | 1,643 | - | - | - | 1,643 |

| 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

i. Allowances (continued)

Deposits with other banks

Group and Bank

| 31 December 2020 | Stage 1 HRK '000 | Stage 2 HRK '000 | Stage 3 HRK '000 | POCI HRK '000 | Total 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 | (1,268) | - | - | - | (1,268) |
| Net foreign exchange loss on loss allowances | 13 | - | - | - | 13 |
| Balance at 31 December 2020 | 1 | - | - | - | 1 |

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 | 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

i. Allowances (continued)

Loans to financial institutions

Group and Bank

31 December 2020

| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2020 | 37,098 | 10,543 | 11,057 | - | 58,698 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | (2,742) | 2,742 | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Net increase/(release) of loss allowance | 2,290 | 22,091 | (545) | - | 23,836 |
| Unwind – changes due to the lapse of time | - | - | 27 | - | 27 |
| Loss allowances transferred from/to loans to other customers | - | (36) | - | - | (36) |
| Net foreign exchange loss on loss allowances | 149 | 95 | 28 | - | 272 |
| Balance at 31 December 2020 | 36,795 | 35,435 | 10,567 | - | 82,797 |

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 | 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

i. Allowances (continued)

Loans to other customers

| Group and Bank | | | | | |
|---|-----------------|-----------------|------------------|-----------------|------------------|
| 31 December 2020 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2020 | 302,945 | 627,951 | 2,313,514 | 120,664 | 3,365,074 |
| Transfer to Stage 1 | 240,277 | (229,466) | (10,811) | - | - |
| Transfer to Stage 2 | (22,462) | 29,720 | (7,258) | - | - |
| Transfer to Stage 3 | (7,365) | (87,683) | 72,940 | 22,108 | - |
| Net increase/(release) of loss allowance | (162,930) | 172,289 | 43,988 | 16,514 | 69,861 |
| Write-offs | - | - | (384) | - | (384) |
| Unwind – changes due to the lapse of time | (427) | (434) | 23,337 | 18,521 | 40,997 |
| Loss allowances transferred to/from loans to financial institutions | - | 36 | - | - | 36 |
| Acquisition of immovable property | (690) | - | (5,508) | - | (6,198) |
| Other | - | - | - | 5,865 | 5,865 |
| Net foreign exchange losses/(gains) on loss allowances | 3,729 | 4,806 | (7,325) | (731) | 479 |
| Balance at 31 December 2020 | 353,077 | 517,219 | 2,422,493 | 182,941 | 3,475,730 |

| 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 | 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) |
| Conversion of receivables into shares | - | - | (1,812) | - | (1,812) |
| Write-off 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

i. Allowances (continued)

Financial assets at fair value through other comprehensive income

| Group | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 December 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 | 426 | (426) | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Net increase of loss allowance | 1,081 | - | 112 | - | 1,193 |
| Net foreign exchange losses on loss allowances | 6 | - | 28 | - | 34 |
| Balance at 31 December 2020 | 2,935 | - | 1,647 | - | 4,582 |

| 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

i. Allowances (continued)

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

| Bank | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 December 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 | 426 | (426) | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Net increase of loss allowance | 1,070 | - | 112 | - | 1,182 |
| Net foreign exchange losses on loss allowances | 6 | - | 28 | - | 34 |
| Balance at 31 December 2020 | 2,852 | - | 1,647 | - | 4,499 |

| 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

i. Allowances (continued)

Other assets

| Group | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 December 2020 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2020 | 164 | 18 | 35,382 | 6 | 35,570 |
| Transfer to Stage 1 | 8 | (1) | (7) | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | (3) | (9) | 12 | - | - |
| Net release of loss allowance | (35) | (7) | (989) | (1) | (1,032) |
| Foreclosed assets | - | - | (2) | - | (2) |
| Net foreign exchange gain on loss allowances | - | - | (37) | - | (37) |
| Other adjustments | 37 | - | - | - | 37 |
| Balance at 31 December 2020 | 171 | 1 | 34,359 | 5 | 34,536 |

| 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 | 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

i. Allowances (continued)

Other assets (continued)

| Bank | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 December 2020 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2020 | 30 | 18 | 35,382 | 6 | 35,436 |
| Transfer to Stage 1 | 8 | (1) | (7) | - | - |
| Transfer to Stage 2 | (2) | 2 | - | - | - |
| Transfer to Stage 3 | (1) | (11) | 12 | - | - |
| Net increase/(release) of loss allowance | (4) | (7) | (989) | (1) | (1,001) |
| Foreclosed assets | - | - | (2) | - | (2) |
| Net foreign exchange gain on loss allowances | - | - | (37) | - | (37) |
| Balance at 31 December 2020 | 31 | 1 | 34,359 | 5 | 34,396 |

| 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 | 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.3. Credit risk (continued)

i. Allowances (continued)

Guarantees and commitments

| Group and Bank 31 December 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 | 2,802 | (2,802) | - | - | - |
| Transfer to Stage 2 | (3,299) | 3,299 | - | - | - |
| Transfer to Stage 3 | - | (2,616) | 2,257 | 359 | - |
| Net increase/(release) of loss allowance | (16,194) | (788) | 228 | 4,941 | (11,813) |
| Net foreign exchange (gain)/loss on loss allowances | 404 | 141 | (878) | (14) | (347) |
| Balance at 31 December 2020 | 8,659 | 11,523 | 17,525 | 7,849 | 45,556 |

| 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.4. Liquidity risk

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 31 December 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 December 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 | 1,659,116 | - | - | - | - | 1,659,116 |
| Deposits with other banks | 58 | - | - | - | 7,279 | 7,337 |
| Loans to financial institutions* | 140,541 | 386,838 | 1,131,004 | 2,330,714 | 4,853,483 | 8,842,580 |
| Loans to other customers | 1,773,535 | 266,248 | 1,120,651 | 2,605,303 | 9,030,442 | 14,796,179 |
| Financial assets at fair value through profit or loss | 189,098 | - | - | - | 2,658 | 191,756 |
| Financial assets at fair value through other comprehensive income | 3,088,069 | 17,669 | 26 | - | - | 3,105,764 |
| Property, plant and equipment and intangible assets | - | - | - | - | 46,448 | 46,448 |
| Foreclosed assets | 2,044 | - | 841 | 18,467 | 3,870 | 25,222 |
| Other assets | 6,838 | 2,061 | 18,939 | 3,626 | 676 | 32,140 |
| Total assets | 6,859,299 | 672,816 | 2,271,461 | 4,958,110 | 13,944,856 | 28,706,542 |
| Liabilities | | | | | | |
| Deposits from customers | 787,664 | 18,526 | 75,995 | 57,212 | 34,996 | 974,393 |
| Borrowings | 198,450 | 369,081** | 1,729,314 | 5,710,981 | 8,856,109 | 16,863,935 |
| Provisions for guarantees, commitments and other liabilities | 50,188 | 3,912 | 15,745 | 19,847 | 18,364 | 108,056 |
| Other liabilities | 181,974 | 16,904 | 58,933 | 77,558 | 61,024 | 396,393 |
| Total liabilities | 1,218,276 | 408,423 | 1,879,987 | 5,865,598 | 8,970,493 | 18,342,777 |
| Liquidity gap | 5,641,023 | 264,393 | 391,474 | (907,488) | 4,974,363 | 10,363,765 |
| Guarantees and commitments | | | | | | |
| Guarantees issued in HRK | 125,204 | - | - | - | - | 125,204 |
| Issued guarantees in foreign currency | 314,843 | - | - | - | - | 314,843 |
| Open letters of credit in foreign currency | 1,471 | - | - | - | - | 1,471 |
| Undrawn loans | 4,752,535 | - | - | - | - | 4,752,535 |
| EIF – subscribed, not called up capital | 48,236 | - | - | - | - | 48,236 |
| EIF CROGIP Contracted Liability | - | 10,000 | 38,000 | 114,382 | 125,301 | 287,683 |
| EIF FRC2 Contracted Liability | 436 | 700 | 3,600 | 4,650 | 101 | 9,487 |
| Total guarantees and commitments | 5,242,725 | 10,700 | 41,600 | 119,032 | 125,402 | 5,539,459 |

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

* *Receivables of HRK 27,574 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.4. Liquidity risk (continued)

| Group 31 December 2019 | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 3 years | Over 3 years | Total |
|---|------------------|------------------|-----------------------|------------------|-------------------|-------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | | | |
| Cash on hand and current accounts with banks | 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 amortised 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.4. Liquidity risk (continued)

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 31 December 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 | Up to 1 | 1 to 3 | 3 months to | 1 to 3 | Over 3 | Total |
|--|------------------|-----------------|--------------------|------------------|-------------------|-------------------|
| 31 December 2020 | month | months | 1 year | years | years | |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | | | |
| Cash on hand and current accounts with banks | 1,653,162 | - | - | - | - | 1,653,162 |
| Deposits with other banks | 58 | - | - | - | 7,279 | 7,337 |
| Loans to financial institutions* | 140,541 | 386,838 | 1,131,004 | 2,330,714 | 4,853,483 | 8,842,580 |
| Loans to other customers | 1,773,535 | 266,248 | 1,120,651 | 2,605,303 | 9,030,442 | 14,796,179 |
| Financial assets at fair value through profit | 189,098 | - | - | - | 2,658 | 191,756 |
| Financial assets at fair value through other | 3,035,716 | 17,610 | - | - | - | 3,053,326 |
| Investments in subsidiaries | - | - | - | - | 36,124 | 36,124 |
| Property, plant and equipment and intangible assets | - | - | - | - | 45,592 | 45,592 |
| Foreclosed assets | 2,044 | - | 841 | 18,467 | 3,870 | 25,222 |
| Other assets | 5,083 | 912 | 18,786 | 3,625 | 676 | 29,082 |
| Total assets | 6,799,237 | 671,608 | 2,271,282 | 4,958,109 | 13,980,124 | 28,680,360 |
| Liabilities | | | | | | |
| Deposits from customers | 787,664 | 18,526 | 75,995 | 57,212 | 34,996 | 974,393 |
| Borrowings | 198,450 | 369,081** | 1,729,314 | 5,710,981 | 8,856,109 | 16,863,935 |
| Provisions for guarantees, commitments and other liabilities | 50,188 | 3,912 | 15,485 | 19,847 | 18,364 | 107,796 |
| Other liabilities | 181,256 | 13,470 | 53,316 | 68,338 | 63,232 | 379,612 |
| Total liabilities | 1,217,558 | 404,989 | 1,874,110 | 5,856,378 | 8,972,701 | 18,325,736 |
| Liquidity gap | 5,581,679 | 266,619 | 397,172 | (898,269) | 5,007,423 | 10,354,624 |
| Guarantees and commitments | | | | | | |
| Guarantees issued in HRK | 125,204 | - | - | - | - | 125,204 |
| Issued guarantees in foreign currency | 314,843 | - | - | - | - | 314,843 |
| Open letters of credit in foreign currency | 1,471 | - | - | - | - | 1,471 |
| Undrawn loans | 4,752,535 | - | - | - | - | 4,752,535 |
| EIF – subscribed, not called up capital | 48,236 | - | - | - | - | 48,236 |
| EIF CROGIP Contracted Liability | - | 10,000 | 38,000 | 114,382 | 125,301 | 287,683 |
| EIF FRC2 Contracted Liability | 436 | 700 | 3,600 | 4,650 | 101 | 9,487 |
| Total guarantees and commitments | 5,242,725 | 10,700 | 41,600 | 119,032 | 125,402 | 5,539,459 |

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

* *Receivables of HRK 27,574 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.4. Liquidity risk (continued)

| Bank 31 December 2019 | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 3 years | Over 3 years | Total |
|--|------------------|------------------|-----------------------|------------------|-------------------|-------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | | | |
| Cash on hand and current accounts with banks | 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 | 24,198 |
| 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.4. 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 | Up to 1 | 1 - 3 | 3 - 12 | 1 - 3 | Over 3 | Total |
|--|------------------|-----------------|------------------|------------------|------------------|-------------------|
| 31 December 2020 | month | months | months | years | years | |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Financial liabilities | | | | | | |
| Deposits from customers | 787,664 | 18,526 | 75,995 | 57,212 | 34,996 | 974,393 |
| Borrowings | 215,012 | 390,277 | 1,872,218 | 5,985,297 | 9,351,468 | 17,814,272 |
| Provisions for guarantees, commitments and other liabilities | 50,188 | 3,912 | 15,745 | 19,847 | 18,364 | 108,056 |
| Other liabilities | 181,974 | 16,904 | 58,933 | 77,558 | 61,024 | 396,393 |
| Total | 1,234,838 | 429,619 | 2,022,891 | 6,139,914 | 9,465,852 | 19,293,114 |
| Guarantees and commitments | | | | | | |
| Guarantees issued in HRK | 125,204 | - | - | - | - | 125,204 |
| Issued guarantees in foreign currency | 314,843 | - | - | - | - | 314,843 |
| Open letters of credit in foreign currency | 1,471 | - | - | - | - | 1,471 |
| Undrawn loans | 4,752,535 | - | - | - | - | 4,752,535 |
| EIF – subscribed, not called up capital | 48,236 | - | - | - | - | 48,236 |
| EIF CROGIP Contracted Liability | - | 10,000 | 38,000 | 114,382 | 125,301 | 287,683 |
| EIF FRC2 Contracted Liability | 436 | 700 | 3,600 | 4,650 | 101 | 9,487 |
| Total guarantees and commitments | 5,242,725 | 10,700 | 41,600 | 119,032 | 125,402 | 5,539,459 |
| Group | | | | | | |
| 31 December 2019 | Up to 1 | 1 - 3 | 3 - 12 | 1 - 3 | Over 3 | Total |
| | month | months | months | years | years | |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.4. 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 | Up to 1 | 1 - 3 | 3 - 12 | 1 - 3 | Over 3 | Total |
|--|------------------|-----------------|------------------|------------------|------------------|-------------------|
| 31 December 2020 | month | months | months | years | years | |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Financial liabilities | | | | | | |
| Deposits from customers | 787,664 | 18,526 | 75,995 | 57,212 | 34,996 | 974,393 |
| Borrowings | 215,012 | 390,277 | 1,872,218 | 5,985,297 | 9,351,468 | 17,814,272 |
| Provisions for guarantees, commitments and other liabilities | 50,188 | 3,912 | 15,485 | 19,847 | 18,364 | 107,796 |
| Other liabilities | 181,256 | 13,470 | 53,316 | 68,338 | 63,232 | 379,612 |
| Total | 1,234,120 | 426,185 | 2,017,014 | 6,130,694 | 9,468,060 | 19,276,073 |
| Guarantees and commitments | | | | | | |
| Guarantees issued in HRK | 125,204 | - | - | - | - | 125,204 |
| Issued guarantees in foreign currency | 314,843 | - | - | - | - | 314,843 |
| Open letters of credit in foreign currency | 1,471 | - | - | - | - | 1,471 |
| Undrawn loans | 4,752,535 | - | - | - | - | 4,752,535 |
| EIF – subscribed, not called up capital | 48,236 | - | - | - | - | 48,236 |
| EIF CROGIP Contracted Liability | - | 10,000 | 38,000 | 114,382 | 125,301 | 287,683 |
| EIF FRC2 Contracted Liability | 436 | 700 | 3,600 | 4,650 | 101 | 9,487 |
| Total guarantees and commitments | 5,242,725 | 10,700 | 41,600 | 119,032 | 125,402 | 5,539,459 |
| Bank | | | | | | |
| 31 December 2019 | Up to 1 | 1 - 3 | 3 - 12 | 1 - 3 | Over 3 | Total |
| | month | months | months | years | years | |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management

34.5. Market risk

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

34.5.1. Interest rate risk

The following tables demonstrate the sensitivity of the Group to the interest rate risk as of 31 December 2020 and 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 December 2020 and 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 |
|--|------------------|------------------|-----------------------|------------------|-------------------|-----------------------------|-------------------|---------------------------|
| 31 December 2020 | 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 | 169,334 | - | - | - | - | 1,489,782 | 1,659,116 | 169,334 |
| Deposits with other banks | - | - | - | - | - | 7,337 | 7,337 | - |
| Loans to financial institutions | 135,389 | 549,052 | 1,099,713 | 2,264,789 | 4,782,876 | 10,761 | 8,842,580 | 8,656,158 |
| Loans to other customers | 1,690,359 | 591,488 | 1,214,415 | 2,473,860 | 8,544,386 | 281,671 | 14,796,179 | 13,626,578 |
| Financial assets at fair value through profit or loss | 298 | - | - | - | 2,658 | 188,800 | 191,756 | 2,956 |
| Financial assets at fair value through other comprehensive income | 3,061,002 | - | - | - | - | 44,762 | 3,105,764 | 3,061,002 |
| Other assets | - | - | - | - | - | 32,140 | 32,140 | - |
| Total assets | 5,056,382 | 1,140,540 | 2,314,128 | 4,738,649 | 13,329,920 | 2,055,253 | 28,634,872 | 25,516,028 |
| Liabilities | | | | | | | | |
| Deposits from customers | - | - | - | - | - | 974,393 | 974,393 | - |
| Borrowings | 198,450 | 328,361 | 1,729,314 | 5,710,981 | 8,856,109 | 40,720 | 16,863,935 | 16,823,215 |
| Provisions for guarantees, commitments and other liabilities | - | - | - | - | - | 108,056 | 108,056 | - |
| Other liabilities | - | - | - | - | - | 396,393 | 396,393 | - |
| Total liabilities | 198,450 | 328,361 | 1,729,314 | 5,710,981 | 8,856,109 | 1,519,562 | 18,342,777 | 16,823,215 |
| Interest rate gap | 4,857,932 | 812,179 | 584,814 | (972,332) | 4,473,811 | 535,691 | 10,292,095 | 8,692,813 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.5. Market risk (continued)

34.5.1. 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 amortised 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.5. Market risk (continued)

34.5.1. Interest rate risk (continued)

The following tables demonstrate the sensitivity of HBOR to the interest rate risk as of 31 December 2020 and 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 HBOR's interest rate risk exposure as of 31 December 2020 and 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 |
|---|------------------|------------------|-----------------------|------------------|-------------------|-----------------------------|-------------------|---------------------------|
| 31 December 2020 | 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 | 163,379 | - | - | - | - | 1,489,783 | 1,653,162 | 163,379 |
| Deposits with other banks | - | - | - | - | - | 7,337 | 7,337 | - |
| Loans to financial institutions | 135,389 | 549,052 | 1,099,713 | 2,264,789 | 4,782,876 | 10,761 | 8,842,580 | 8,656,158 |
| Loans to other customers | 1,690,359 | 591,488 | 1,214,415 | 2,473,860 | 8,544,386 | 281,671 | 14,796,179 | 13,626,578 |
| Financial assets at fair value through profit or loss | 298 | - | - | - | 2,658 | 188,800 | 191,756 | 2,956 |
| Financial assets at fair value through other comprehensive income | 3,009,009 | - | - | - | - | 44,317 | 3,053,326 | 3,009,009 |
| Other assets | - | - | - | - | - | 29,082 | 29,082 | - |
| Total assets | 4,998,434 | 1,140,540 | 2,314,128 | 4,738,649 | 13,329,920 | 2,051,751 | 28,573,422 | 25,458,080 |
| Liabilities | | | | | | | | |
| Deposits from customers | - | - | - | - | - | 974,393 | 974,393 | - |
| Borrowings | 198,450 | 328,361 | 1,729,314 | 5,710,981 | 8,856,109 | 40,720 | 16,863,935 | 16,823,215 |
| Provisions for guarantees, commitments and other liabilities | - | - | - | - | - | 107,796 | 107,796 | - |
| Other liabilities | - | - | - | - | - | 379,612 | 379,612 | - |
| Total liabilities | 198,450 | 328,361 | 1,729,314 | 5,710,981 | 8,856,109 | 1,502,521 | 18,325,736 | 16,823,215 |
| Interest rate gap | 4,799,984 | 812,179 | 584,814 | (972,332) | 4,473,811 | 549,230 | 10,247,686 | 8,634,865 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.5. Market risk (continued)

34.5.1. 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.5. Market risk (continued)

34.5.1. Interest rate risk (continued)

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

| | 31 December | Group | 31 December | Bank |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2020 | 31 December | 2020 | 31 December |
| | HRK '000 | 2019 | HRK '000 | 2019 |
| | | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | |
| Fixed interest rate assets | 25,516,028 | 24,877,104 | 25,458,080 | 24,834,037 |
| Variable interest rate assets | 1,063,591 | 898,871 | 1,063,591 | 898,871 |
| Non-interest bearing | 2,055,253 | 622,157 | 2,051,751 | 605,946 |
| Total | 28,634,872 | 26,398,132 | 28,573,422 | 26,338,854 |
| Liabilities | | | | |
| Fixed interest rate liabilities | 16,823,215 | 15,325,232 | 16,823,215 | 15,325,232 |
| Variable interest rate liabilities | - | 143,638 | - | 143,638 |
| Non-interest bearing | 1,519,562 | 727,160 | 1,502,521 | 710,521 |
| Total liabilities | 18,342,777 | 16,196,030 | 18,325,736 | 16,179,391 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.5. Market risk (continued)

34.5.1. 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 for 2020 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. in 2020 | Effect on profit | Increase in b.p. in 2019 | Effect on profit |
|----------|-----------------------------|------------------|-----------------------------|------------------|
| | | in 2020 | | in 2019 |
| | | HRK '000 | | HRK '000 |
| EUR | +31 | - | +6 | 295 |
| USD | +16 | 343 | +17 | 468 |
| Currency | Decrease in b.p. in 2020 | Effect on profit | Decrease in b.p. in 2019 | Effect on profit |
| | | in 2020 | | in 2019 |
| | | HRK '000 | | HRK '000 |
| EUR | -31 | - | -6 | (295) |
| USD | -16 | (343) | -17 | (468) |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.5. Market risk (continued)

34.5.2. Currency risk

Total assets and total liabilities as of 31 December 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 December 2020 | | | | | | |
| Assets | | | | | | |
| Cash on hand and current accounts with banks | 6,871 | 158,046 | 134 | 165,051 | 1,494,065 | 1,659,116 |
| Deposits with other banks | - | 7,337 | - | 7,337 | - | 7,337 |
| Loans to financial institutions | - | 4,404,829 | - | 4,404,829 | 4,437,751 | 8,842,580 |
| Loans to other customers | 265,977 | 9,878,211 | - | 10,144,188 | 4,651,991 | 14,796,179 |
| Financial assets at fair value through profit or loss | - | 61,949 | - | 61,949 | 129,807 | 191,756 |
| Financial assets at fair value through other comprehensive income | - | 1,170,687 | - | 1,170,687 | 1,935,077 | 3,105,764 |
| Property, plant and equipment and intangible assets | - | - | - | - | 46,448 | 46,448 |
| Foreclosed assets | - | - | - | - | 25,222 | 25,222 |
| Other assets | - | 1,255 | - | 1,255 | 30,885 | 32,140 |
| Total assets | 272,848 | 15,682,314 | 134 | 15,955,296 | 12,751,246* | 28,706,542 |
| Liabilities | | | | | | |
| Deposits from customers | 16,456 | 652,083 | 44 | 668,583 | 305,810 | 974,393 |
| Borrowings | 194,605 | 15,168,730 | - | 15,363,335 | 1,500,600 | 16,863,935 |
| Provisions for guarantees, commitments and other liabilities | 9,720 | 6,191 | 1,062 | 16,973 | 91,083 | 108,056 |
| Other liabilities | 183 | 25,136 | 58 | 25,377 | 371,016 | 396,393 |
| Total liabilities | 220,964 | 15,852,140 | 1,164 | 16,074,268 | 2,268,509 | 18,342,777 |
| Currency gap | 51,884 | (169,826) | (1,030) | (118,972) | 10,482,737 | 10,363,765 |

*Amounts linked to a one-way currency clause represent HRK 38,816 thousand.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.5. Market risk (continued)

34.5.2. Currency risk (continued)

| Group | USD | EUR | Other foreign currencies | Total foreign currencies | HRK | Total |
|---|----------------|-------------------|--------------------------------|--------------------------------|--------------------|-------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| 31 December 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 amortised 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.5. Market risk (continued)

34.5.2. Currency risk (continued)

Total assets and total liabilities as of 31 December 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 |
|---|----------------|-------------------|--------------------------------|--------------------------------|--------------------|-------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| 31 December 2020 | | | | | | |
| Assets | | | | | | |
| Cash on hand and current accounts with banks | 6,871 | 156,374 | 134 | 163,379 | 1,489,783 | 1,653,162 |
| Deposits with other banks | - | 7,337 | - | 7,337 | - | 7,337 |
| Loans to financial institutions | - | 4,404,829 | - | 4,404,829 | 4,437,751 | 8,842,580 |
| Loans to other customers | 265,977 | 9,878,211 | - | 10,144,188 | 4,651,991 | 14,796,179 |
| Financial assets at fair value through profit or loss | - | 61,949 | - | 61,949 | 129,807 | 191,756 |
| Financial assets at fair value through other comprehensive income | - | 1,148,204 | - | 1,148,204 | 1,905,122 | 3,053,326 |
| Investments in subsidiaries | - | - | - | - | 36,124 | 36,124 |
| Property, plant and equipment and intangible assets | - | - | - | - | 45,592 | 45,592 |
| Foreclosed assets | - | - | - | - | 25,222 | 25,222 |
| Other assets | - | 112 | - | 112 | 28,970 | 29,082 |
| Total assets | 272,848 | 15,657,016 | 134 | 15,929,998 | 12,750,362* | 28,680,360 |
| Liabilities | | | | | | |
| Deposits from customers | 16,456 | 652,083 | 44 | 668,583 | 305,810 | 974,393 |
| Borrowings | 194,605 | 15,168,730 | - | 15,363,335 | 1,500,600 | 16,863,935 |
| Provisions for guarantees, commitments and other liabilities | 9,720 | 6,191 | 1,062 | 16,973 | 90,823 | 107,796 |
| Other liabilities | 26 | 16,059 | - | 16,085 | 363,527 | 379,612 |
| Total liabilities | 220,807 | 15,843,063 | 1,106 | 16,064,976 | 2,260,760 | 18,325,736 |
| Currency gap | 52,041 | (186,047) | (972) | (134,978) | 10,489,602 | 10,354,624 |

* Amounts linked to a one-way currency clause represent HRK 38,816 thousand.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.5. Market risk (continued)

34.5.2. Currency risk (continued)

| Bank | USD | EUR | Other foreign currencies | Total foreign currencies | HRK | Total |
|---|----------------|-------------------|--------------------------------|--------------------------------|--------------------|-------------------|
| 31 December 2019 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

34. Risk management (continued)

34.5. Market risk (continued)

34.5.2. 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 December 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 1.72% in the last 12 months (2019:1.22%).

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 in 2020 % | Effect on profit in 2020 HRK' 000 | Change in currency rate in 2019 % | Effect on profit in 2019 HRK' 000 |
|-----|--|--|--|--|
| EUR | +1.72 | (706) | +1.22 | (5,333) |
| EUR | -1.72 | 738 | -1.22 | 5,428 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

35. Fair value of financial assets and financial liabilities

The accounting policy on fair value measurements is discussed in Note 4.1.

35.1. 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 December 2020 and 31 December 2019.

| Group | 31 December 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 | - | - | 2,658 |
| Investments in investment funds: | | | |
| Investments in investment funds at fair value through profit or loss | 188,289 | - | - |
| Equity instruments: | | | |
| Listed equity instruments: | | | |
| Investments in corporate shares | - | - | - |
| Unlisted equity instruments: | | | |
| Investments in corporate shares | - | - | 31 |
| Depository receipt - DR | - | - | 319 |
| Investment in financial institutions shares | - | 161 | - |
| Derivative financial assets-positive fair value | | | |
| FX swap | - | 298 | - |
| Total financial assets at fair value through profit or loss | 188,289 | 459 | 3,008 |
| Financial assets at fair value through other comprehensive income: | | | |
| Debt instruments: | | | |
| Listed debt instruments: | | | |
| Bonds of the Republic of Croatia | 1,519,381 | - | - |
| Corporate bonds | 2,355 | - | - |
| Treasury bills of the Ministry of Finance | 1,537,395 | - | - |
| Accrued interest | 17,663 | - | - |
| Unlisted debt instruments: | | | |
| Corporate bonds | - | - | 564 |
| Convertible bonds - CB | - | - | 1,307 |
| Accrued interest | - | - | 391 |
| Total debt instruments | 3,076,794 | - | 2,262 |
| Unlisted equity instruments: | | | |
| Investment in shares of foreign legal entities | - | 43 | - |
| Shares of foreign financial institutions – EIF | - | 26,665 | - |
| Total equity instruments | - | 26,708 | - |
| Total financial assets at fair value through other comprehensive income | 3,076,794 | 26,708 | 2,262 |

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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

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

35.1. 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

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

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

| Bank | 31 December 2020 | | |
|--|------------------|---------------|--------------|
| | Level 1 | Level 2 | Level 3 |
| | HRK '000 | HRK '000 | HRK '000 |
| Financial assets at fair value through profit or loss: | | | |
| <i>Loans at FVPL:</i> | | | |
| Mezzanine loans | - | - | 2,658 |
| <i>Investments in investment funds:</i> | | | |
| Investments in investment funds at fair value through profit or loss | 188,289 | - | - |
| Equity instruments: | | | |
| <i>Listed equity instruments:</i> | | | |
| Investments in companies' shares | - | - | - |
| <i>Unlisted equity instruments:</i> | | | |
| Investments in companies' shares | - | - | 31 |
| Depository receipt - DR | - | - | 319 |
| Investment in financial institutions shares | - | 161 | - |
| <i>Derivative financial assets-positive fair value</i> | | | |
| FX swap | - | 298 | - |
| Total financial assets at fair value through profit or loss | 188,289 | 459 | 3,008 |
| Financial assets at fair value through other comprehensive income: | | | |
| Debt instruments: | | | |
| <i>Listed debt instruments:</i> | | | |
| Bonds of the Republic of Croatia | 1,469,742 | - | - |
| Treasury bills of the Ministry of Finance | 1,537,395 | - | - |
| Accrued interest | 17,219 | - | - |
| <i>Unlisted debt instruments:</i> | | | |
| Corporate bonds | - | - | 564 |
| Convertible bonds - CB | - | - | 1,307 |
| Accrued interest | - | - | 391 |
| Total debt instruments | 3,024,356 | - | 2,262 |
| <i>Unlisted equity instruments:</i> | | | |
| Investment in shares of foreign legal entities – SWIFT | - | 43 | - |
| Shares of foreign financial institutions – EIF | - | 26,665 | - |
| Total equity instruments | - | 26,708 | - |
| Total financial assets at fair value through other comprehensive income | 3,024,356 | 26,708 | 2,262 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

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

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

| Bank | 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 | 191,029 | - | - |
| Equity instruments: | | | |
| <i>Listed equity instruments:</i> | | | |
| Investments in companies' shares | - | - | - |
| <i>Unlisted equity instruments:</i> | | | |
| 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: | | | |
| <i>Listed debt instruments:</i> | | | |
| Bonds of the Republic of Croatia | 1,083,749 | - | - |
| Treasury bills of the Ministry of Finance | 414,788 | - | - |
| Accrued interest | 10,762 | - | - |
| <i>Unlisted debt instruments:</i> | | | |
| Corporate bonds | - | - | 573 |
| Convertible bonds - CB | - | - | 2,155 |
| Accrued interest | - | - | 369 |
| Total debt instruments | 1,509,299 | - | 3,097 |
| <i>Unlisted equity instruments:</i> | | | |
| 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

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

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

35.1.1. 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 December 2020, the market price of ordinary shares of the debtor that the Bank could subscribe amounted to HRK 6,479 thousand, assuming that the market price of the shares included all market expectations related to future operations of the issuer. Given that HBOR can subscribe ordinary shares not earlier than on 30 April 2030, the amount of market value is reduced to the current value by applying the appropriate discount rate. The present value of these shares in HBOR's expected ownership amounts to HRK 2,658 thousand, which represents the fair value of the mezzanine loan on 31 December 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

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

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

35.1.1. 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 December 2020, 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 December 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 12.40%, the bond price would be 37.72%, which would result in an increase in HBOR's generated profits of HRK 12.84 thousand.
- b) In the case of an increase in market yield on no-risk investment (linearly interpolated/extrapolated yield on bonds of the Republic of Croatia of the same duration and the same currency as the corporate bond) by 2%, the discount rate would equal 16.40%, the bond price would be 36.08%, which would result in a decrease in HBOR's generated profits of HRK 12.23 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 December 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 56.44 thousand.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

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

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

35.1.1. 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 | 2020 HRK '000 | 2019 HRK '000 |
|---|--------------------------------|--------------------------------|
| Balance as at 1 January | 2,234 | 2,045 |
| Decrease in fair value through profit or loss | 424 | 189 |
| Balance as of 31 December | 2,658 | 2,234 |

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

| Group and Bank | 2020 HRK '000 | 2019 HRK '000 |
|---|--------------------------------|--------------------------------|
| Balance as at 1 January | 3,097 | 768 |
| Increase in fair value through other comprehensive income | (922) | 2,255 |
| Net foreign exchange | 65 | 5 |
| Accrued interest | 22 | 69 |
| Balance as of 31 December | 2,262 | 3,097 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

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

35.2. Financial instruments not measured at fair value

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

| Group 31 December 2020 | Level 1 HRK '000 | Level 2 HRK '000 | Level 3 HRK '000 | Total fair values HRK '000 | Total carrying amount HRK '000 |
|--|-----------------------------------|-----------------------------------|-----------------------------------|---|---|
| Assets | | | | | |
| Cash on hand and current accounts with banks | 1,659,116 | - | - | 1,659,116 | 1,659,116 |
| Deposits with other banks | - | 7,337 | - | 7,337 | 7,337 |
| Loans to financial institutions | - | - | 8,954,380 | 8,954,380 | 8,842,580 |
| Loans to other customers | - | - | 16,947,347 | 16,947,347 | 14,796,179 |
| | 1,659,116 | 7,337 | 25,901,727 | 27,568,180 | 25,305,212 |
| Liabilities | | | | | |
| Deposits from customers | - | 974,393 | - | 974,393 | 974,393 |
| Borrowings | - | - | 17,848,829 | 17,848,829 | 16,863,935 |
| | - | 974,393 | 17,848,829 | 18,823,222 | 17,838,328 |
| | | | | | |
| Group 31 December 2019 | Level 1 HRK '000 | Level 2 HRK '000 | Level 3 HRK '000 | Total fair values HRK '000 | Total carrying amount HRK '000 |
| Assets | | | | | |
| Cash on hand and current accounts with banks | 884,407 | - | - | 884,407 | 884,407 |
| Deposits with other banks | - | 553,470 | - | 553,470 | 553,470 |
| Loans to financial institutions | - | - | 10,733,369 | 10,733,369 | 9,447,706 |
| Loans to other customers | - | - | 16,041,117 | 16,041,117 | 13,699,634 |
| | 884,407 | 553,470 | 26,774,486 | 28,212,363 | 24,585,217 |
| Liabilities | | | | | |
| Deposits from customers | - | 176,769 | - | 176,769 | 176,769 |
| Borrowings | - | - | 16,315,172 | 16,315,172 | 14,400,453 |
| Debt securities issued | - | 1,141,506 | - | 1,141,506 | 1,158,291 |
| | - | 1,318,275 | 16,315,172 | 17,633,447 | 15,735,513 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

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

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

| Bank | Level 1 | Level 2 | Level 3 | Total fair values | Total carrying amount |
|--|------------------|-----------------|-------------------|--------------------------|------------------------------|
| 31 December 2020 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | | |
| Cash on hand and current accounts with banks | 1,653,162 | - | - | 1,653,162 | 881,487 |
| Deposits with other banks | - | 7,337 | - | 7,337 | 7,337 |
| Loans to financial institutions | - | - | 8,954,380 | 8,954,380 | 8,842,580 |
| Loans to other customers | - | - | 16,947,347 | 16,947,347 | 14,796,179 |
| | 1,653,162 | 7,337 | 25,901,727 | 27,562,226 | 24,527,583 |
| Liabilities | | | | | |
| Deposits from customers | - | 974,393 | - | 974,393 | 974,393 |
| Borrowings | - | - | 17,848,829 | 17,848,829 | 16,863,935 |
| | - | 974,393 | 17,848,829 | 18,823,222 | 17,838,328 |

| Bank | Level 1 | Level 2 | Level 3 | Total fair values | Total carrying amount |
|--|-----------------|------------------|-------------------|--------------------------|------------------------------|
| 31 December 2019 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | | |
| Cash on hand and current accounts with banks | 881,487 | - | - | 881,487 | 881,487 |
| Deposits with other banks | - | 553,470 | - | 553,470 | 553,470 |
| Loans to financial institutions | - | - | 10,733,369 | 10,733,369 | 9,447,706 |
| Loans to other customers | - | - | 16,041,117 | 16,041,117 | 13,699,634 |
| | 881,487 | 553,470 | 26,774,486 | 28,209,443 | 24,582,297 |
| Liabilities | | | | | |
| Deposits from customers | - | 176,769 | - | 176,769 | 176,769 |
| Borrowings | - | - | 16,315,172 | 16,315,172 | 14,400,453 |
| Debt securities issued | - | 1,141,506 | - | 1,141,506 | 1,158,291 |
| | - | 1,318,275 | 16,315,172 | 17,633,447 | 15,735,513 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

36. 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

36. Reporting by segments (continued)

| | Banking activities HRK '000 | Insurance activities HRK '000 | Other activities HRK '000 | Unallocated HRK '000 | Total HRK '000 |
|---|--|--|--|---------------------------------|---------------------------|
| Jan 1 – Dec 31, 2020 | | | | | |
| Net interest income | 377,151 | 1,118 | - | - | 378,269 |
| Net fee income | 22,969 | 1,210 | 1,880 | - | 26,059 |
| Net income/(expenses) from financial operations | (3,034) | 648 | - | (726) | (3,112) |
| Net premiums earned | - | 7,014 | - | - | 7,014 |
| Other income | 11,896 | 185 | 254 | (265) | 12,070 |
| Income from operating activities | 408,982 | 10,175 | 2,134 | (991) | 420,300 |
| Operating costs | (147,474) | (5,861) | (1,726) | 265 | (154,796) |
| Impairment loss and provisions | (182,169) | (76) | (19) | - | (182,264) |
| Expenses for insured cases | - | (675) | - | - | (675) |
| Net change in provisions | - | (287) | - | - | (287) |
| Other expenses | - | (288) | - | - | (288) |
| Operating expenses | (329,643) | (7,187) | (1,745) | 265 | (338,310) |
| Profit before income tax | 79,339 | 2,988 | 389 | (726) | 81,990 |
| Income tax | - | (459) | - | - | (459) |
| Profit for the year | 79,339 | 2,529 | 389 | (726) | 81,531 |
| 31 December 2020 | | | | | |
| Assets of segment | 28,680,360 | 61,390 | 1,441 | (36,649) | 28,706,542 |
| Total assets | 28,680,360 | 61,390 | 1,441 | (36,649) | 28,706,542 |
| Liabilities of segment | 18,325,736 | 16,903 | 162 | (24) | 18,342,777 |
| Total equity | 10,354,624 | 6,968 | 999 | 1,174 | 10,363,765 |
| Total liabilities and total equity | 28,680,360 | 23,871 | 1,161 | 1,150 | 28,706,542 |

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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

36. Reporting by segments (continued)

| | Banking activities HRK '000 | Insurance activities HRK '000 | Other activities HRK '000 | Unallocated HRK '000 | Total HRK '000 |
|---|--|--|--|---------------------------------|---------------------------|
| Jan 1 – Dec 31, 2019 | | | | | |
| Net interest income | 353,028 | 1,273 | - | - | 354,301 |
| Net fee income | 22,493 | 1,400 | 1,585 | - | 25,478 |
| Net income/(expenses) from financial operations | 4,743 | 446 | 13 | - | 5,202 |
| Net premiums earned | - | 5,998 | - | - | 5,998 |
| Other income | 8,090 | 73 | 278 | (288) | 8,153 |
| Income from operating activities | 388,354 | 9,190 | 1,876 | (288) | 399,132 |
| Operating costs | (159,308) | (5,834) | (1,425) | 288 | (166,279) |
| Impairment loss and provisions | (73,996) | 233 | 1 | - | (73,762) |
| Expenses for insured cases | - | (3,710) | - | - | (3,710) |
| Net change in provisions | - | (1,121) | - | - | (1,121) |
| Other expenses | - | (162) | - | - | (162) |
| Operating expenses | (233,304) | (10,594) | (1,424) | 288 | (245,034) |
| Profit before income tax | 155,050 | (1,404) | 452 | - | 154,098 |
| Income tax | - | 255 | (55) | - | 200 |
| Profit for the year | 155,050 | (1,149) | 397 | - | 154,298 |
| 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 year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

37. 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 December 2020 and 31 December 2019.

| | 31 December 2020 HRK '000 | Group 31 December 2019 HRK '000 | 31 December 2020 HRK '000 | Bank 31 December 2019 HRK '000 |
|--|---------------------------------|--|---------------------------------|---|
| Total regulatory capital | 10,076,599 | 10,023,220 | 10,074,668 | 10,024,106 |
| Credit risk weighted exposure amount | 15,868,462 | 14,931,756 | 15,862,444 | 14,914,038 |
| Credit requirements for operating risk | 787,800 | 848,015 | 767,635 | 827,833 |
| Capital requirements for currency risk | - | 429,307 | - | 429,307 |
| Total capital requirements | 16,656,262 | 16,209,078 | 16,630,079 | 16,171,178 |
| Capital adequacy ratio | 60.50 | 61.84 | 60.58 | 61.99 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Own funds needed for ensuring capital adequacy according to regulatory requirements | 1,998,751 | 1,945,089 | 1,995,609 | 1,940,541 |

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2020 (continued)

(All amounts are expressed in HRK thousand)

38. Earnings per share

Pursuant to the HBOR Act, the equity capital of the Bank consists of one share in the company that may not be divided, transferred or pledged and is owned solely by the Republic of Croatia.
For the purpose of calculation of earnings per share, earning is presented as net profit after taxation.

Appendix - financial performance of the HKO Group
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December

(All amounts are expressed in HRK thousand)

| | 2020 HRK '000 | 2019 HRK '000 |
|---|------------------|------------------|
| Premium earned | | |
| Gross premium written | 13,079 | 12,009 |
| Premium impairment allowance originated and reserved on collection | (37) | 1 |
| Gross outward reinsurance premium | (5,938) | (5,333) |
| Net premium written | 7,104 | 6,677 |
| Changes in the gross unearned premium reserve | (339) | (1,187) |
| Changes in the gross unearned premium reserve, reinsurer's share | 249 | 509 |
| Net premium earned | 7,014 | 5,999 |
| Fee and commission income | 3,090 | 2,985 |
| Net investment income | 973 | 1,729 |
| Other operating income | 174 | 63 |
| Net income | 11,251 | 10,776 |
| Gross expense for returned premiums | (589) | (326) |
| Reinsurer's share | 301 | 164 |
| Gross reserve for returned premiums | (306) | (378) |
| Reinsurer's share | 155 | 178 |
| Net expense and reserve for returned premiums | (439) | (362) |
| Claims incurred | (972) | (7,068) |
| Claims incurred, reinsurer's share | 298 | 3,358 |
| Change in the claims provision | (402) | 323 |
| Change in the claims provision, reinsurer's share | 266 | (1,244) |
| Net claims incurred | (810) | (4,631) |
| Marketing and provision expenses | (569) | (840) |
| Administrative expenses | (6,740) | (5,940) |
| Other operating expenses | (109) | 42 |
| Net exchange differences other than those on financial instruments | 67 | 3 |
| Profit before income tax | 2,651 | (952) |
| Income tax | (459) | 200 |
| Profit for the year | 2,192 | (752) |
| Other comprehensive income | | |
| Items that are not transferred subsequently to profit or loss: | | |
| 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 | 1,707 | 2,829 |
| Decrease in the fair value of financial assets available for sale | (2,113) | (1,000) |
| Transfer of realized gains on asset available for sale to profit or loss | (253) | (389) |
| Deferred tax | 121 | (298) |
| Total items that may be reclassified subsequently to profit or loss: | (538) | 1,142 |
| Other comprehensive income after income tax | (538) | 1,142 |
| Total comprehensive income after income tax | 1,654 | 390 |
| Attributable to: | | |
| Equity holder of the parent | 1,654 | 390 |

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 31 December

(All amounts are expressed in HRK thousand)

| | 2020 HRK '000 | 2019 HRK '000 |
|--|------------------|------------------|
| Assets | | |
| Non-current assets | | |
| Property and equipment | 594 | 839 |
| Intangible assets | 262 | 134 |
| Held to maturity investments | - | 457 |
| Deferred tax | - | - |
| Total non-current assets | 856 | 1,430 |
| Current assets | | |
| Investments available for sale | 52,437 | 40,169 |
| Investments at fair value through profit or loss | - | 9,839 |
| Receivables from insurance operations | 2,497 | 5,331 |
| Other receivables | 562 | 563 |
| Cash and cash equivalents | 5,955 | 2,919 |
| Total current assets | 61,451 | 58,821 |
| Total assets | 62,307 | 60,251 |
| Equity and liabilities | | |
| Equity | | |
| Share capital | 37,500 | 37,500 |
| Retained earnings and reserves | 1,749 | 2,501 |
| Other reserves | 3,825 | 4,363 |
| Profit for the year | 2,192 | (752) |
| Total equity | 45,266 | 43,612 |
| Technical provisions | | |
| Gross technical provisions | 19,258 | 18,211 |
| Technical provisions, reinsurer's share | (8,832) | (8,163) |
| | 10,426 | 10,048 |
| Current liabilities | | |
| Liabilities from insurance operations | 3,380 | 3,291 |
| Other liabilities | 3,235 | 3,300 |
| Total liabilities | 6,615 | 6,591 |
| Total equity and liabilities | 62,307 | 60,251 |

Appendix - financial performance of the HKO Group
Statement of Cash Flows
for the year ended 31 December
(All amounts are expressed in HRK thousand)

| | 2020 HRK '000 | 2019 HRK '000 |
|--|------------------|------------------|
| Operating activities | | |
| Profit before income tax | 2,651 | (952) |
| <i>Adjustments to reconcile to net cash from and used in operating activities:</i> | | |
| Depreciation | 322 | 353 |
| Impairment loss and provisions | 133 | (236) |
| Income tax | (214) | (71) |
| Accrued interest | 36 | 8 |
| Other | 42 | 1 |
| <i>Operating profit before working capital changes</i> | <i>2,970</i> | <i>(897)</i> |
| Changes in operating assets and liabilities: | | |
| Net realized (gain)/loss on assets available for sale | 279 | (389) |
| Decrease of discount in assets available for sale and assets held to maturity | 110 | 205 |
| Net gain on financial assets at fair value through profit or loss | 122 | (19) |
| Premium receivables | 2,797 | 2,794 |
| Net decrease/(increase) in other assets | (136) | (118) |
| Net decrease of assets and liabilities from insurance operations | 89 | 742 |
| Net increase in technical provisions | 377 | 1,799 |
| Net increase in other liabilities | (233) | 1,099 |
| Net cash provided/(used in) operating activities | 6,375 | 5,216 |
| Investment activities | | |
| Net purchase of financial assets at fair value through profit or loss | - | (11,335) |
| Net sale of financial assets at fair value through profit or loss | 9,747 | 7,345 |
| Net purchase of assets available for sale | (16,511) | (1,252) |
| Net sale of assets available for sale | 3,346 | - |
| Purchase of assets held to maturity | - | - |
| Collection of assets held to maturity when due | 448 | 892 |
| Net purchase of property, plant and equipment and intangible assets | (79) | (1,261) |
| Net cash (used in)/provided investment activities | (3,049) | (5,611) |
| Effect of foreign currency to cash and cash equivalents | | |
| Net foreign exchange | (286) | (44) |
| Net effect | (286) | (44) |
| Net (decrease)/increase in cash and cash equivalents | 3,040 | (439) |
| Balance as of 1 January | 2,924 | 3,363 |
| Net (decrease)/increase in cash | 3,040 | (439) |
| Balance as of 31 December | 5,964 | 2,924 |

Appendix - financial performance of the HKO Group
Statement of Changes in Equity
for the year ended 31 December
(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 year | - | - | - | (752) | (752) | (752) |
| Other comprehensive income | - | - | 1,142 | - | 1,142 | 1,142 |
| Total comprehensive income | - | - | 1,142 | (752) | 390 | 390 |
| Transfer of profit 2018 to retained earnings | - | 481 | - | (481) | - | - |
| Other adjustments | - | (217) | 172 | - | (45) | (45) |
| Balance as of 31 December 2019 | 37,500 | 2,501 | 4,363 | (752) | 43,612 | 43,612 |
| Profit for the year | - | - | - | 2,192 | 2,192 | 2,192 |
| Other comprehensive income | - | - | (538) | - | (538) | (538) |
| Total comprehensive income | - | - | (538) | 2,192 | 1,654 | 1,654 |
| Covering of loss from 2019 from retained earnings | - | (752) | - | 752 | - | - |
| Balance as of 31 December 2020 | 37,500 | 1,749 | 3,825 | 2,192 | 45,266 | 45,266 |