

# **CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT**

## **Unaudited Condensed Separate and Consolidated Interim Financial Statements for the Period 1 January – 30 September 2021**

Zagreb, November 2021

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

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Responsibilities of the Management and Supervisory Boards for the preparation and approval of the condensed separate and consolidated interim financial statements for the period 1 January – 30 September 2021

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We confirm that, to the best of our knowledge, the condensed separate interim financial statements of the Croatian Bank for Reconstruction and Development (“the Bank” or “HBOR”) and condensed consolidated interim financial statements of the Croatian Bank for Reconstruction and Development Group (“the Group”) set out on pages 4 to 128 have been prepared in accordance with International Accounting Standard 34: “Interim Financial Reporting” applicable for the preparation of interim financial statements, and give a true and fair view of assets, liabilities, financial position, financial performance and cash flows for the reporting period.

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

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

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

The Condensed separate and consolidated interim financial statements on pages 4 to 128 have been approved by the Management Board on 17 November 2021 as confirmed by the signatures below.

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

  
Vedran Jakšić, MSc  
**Senior Executive Director**

  
Marin Pranjić  
**Accounting Division Executive Director**

  
Tamara Perko, MSc  
**President of the Management Board**



  
Hrvoje Čuvalo, MSc  
**Member of the Management Board**

Zagreb, 17 November 2021

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

(All amounts are expressed in HRK thousand)

	Notes	2021		2020	
		Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000
Interest income calculated using the effective interest method	5	153,621	491,662	153,233	465,352
Interest expense	6	(44,214)	(141,458)	(55,274)	(189,626)
<b>Net interest income</b>		<b>109,407</b>	<b>350,204</b>	<b>97,959</b>	<b>275,726</b>
Fee and commission income		9,403	23,938	6,766	18,945
Fee and commission expense		(1,197)	(4,665)	(769)	(1,386)
<b>Net fee and commission income</b>		<b>8,206</b>	<b>19,273</b>	<b>5,997</b>	<b>17,559</b>
Net gains/(losses) on financial operations		(3,197)	(7,482)	6,736	(4,490)
Other income		5,816	26,496	3,450	10,697
		<b>120,232</b>	<b>388,491</b>	<b>114,142</b>	<b>299,492</b>
Employee expenses	7 a)	(25,643)	(73,960)	(24,635)	(71,852)
Depreciation and amortization	7 b)	(2,865)	(8,441)	(2,436)	(7,011)
Other expenses	7 c)	(21,189)	(59,288)	(10,306)	(32,845)
Impairment loss and provisions	8	(140,941)	(4,331)	(36,493)	(129,860)
<b>Profit/(loss) before income tax</b>		<b>(70,406)</b>	<b>242,471</b>	<b>40,272</b>	<b>57,924</b>
Income tax		-	-	1	(228)
<b>Profit/(loss) for the period</b>		<b>(70,406)</b>	<b>242,471</b>	<b>40,273</b>	<b>57,696</b>
<b>Attributable to:</b>					
<b>Owner of the Bank</b>		<b>(70,406)</b>	<b>242,471</b>	<b>40,273</b>	<b>57,696</b>

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

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

(All amounts are expressed in HRK thousand)

	2021		2020	
	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000
<b>Profit/(loss) for the period</b>	<b>(70,406)</b>	<b>242,471</b>	<b>40,273</b>	<b>57,696</b>
<b>Other comprehensive income</b>				
<b>Items that are not transferred</b>				
<b>subsequently to profit or loss:</b>				
Deferred tax-adjustment for previous period	-	-	-	-
<b>Total items that are not transferred</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Items that may be reclassified</b>				
<b>subsequently to profit or loss:</b>				
Net changes in financial assets at fair value through other comprehensive income	(5,965)	(17,253)	2,413	(19,376)
Net foreign exchange on equity instruments	16	(144)	(51)	359
Deferred tax – other comprehensive income	19	120	(38)	145
<b>Total items that may be reclassified</b>	<b>(5,930)</b>	<b>(17,277)</b>	<b>2,324</b>	<b>(18,872)</b>
<b>Other comprehensive income/(loss) after</b>	<b>(5,930)</b>	<b>(17,277)</b>	<b>2,324</b>	<b>(18,872)</b>
<b>income tax</b>				
<b>Total comprehensive income/(loss) after</b>	<b>(76,336)</b>	<b>225,194</b>	<b>42,597</b>	<b>38,824</b>
<b>income tax</b>				
<b>Income/(loss) attributable to:</b>				
<b>Owner of the Bank</b>	<b>(76,336)</b>	<b>225,194</b>	<b>42,597</b>	<b>38,824</b>

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

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

(All amounts are expressed in HRK thousand)

	Notes	Sep 30, 2021 HRK '000	Dec 31, 2020 HRK '000
<b>Assets</b>			
Cash on hand and current accounts with banks	9	1,402,922	1,659,116
Deposits with other banks	10	6,535	7,337
Loans to financial institutions	11	7,512,930	8,842,580
Loans to other customers	12	16,073,481	14,796,179
Financial assets at fair value through profit or loss	13	224,000	191,756
Financial assets at fair value through other comprehensive income	14	2,854,329	3,105,764
Investments in associates		-	-
Property, plant and equipment and intangible assets		44,591	46,448
Foreclosed assets	15	22,545	25,222
Other assets	16	40,239	32,140
<b>Total assets</b>		<b>28,181,572</b>	<b>28,706,542</b>
<b>Liabilities</b>			
Deposits from customers	17	1,137,233	974,393
Borrowings	18	15,930,480	16,863,935
Provisions for guarantees, commitments and other	19	121,987	108,056
Other liabilities	20	377,981	396,393
<b>Total liabilities</b>		<b>17,567,681</b>	<b>18,342,777</b>
<b>Equity</b>			
Founder's capital	26	7,159,632	7,134,632
Retained earnings and reserves		3,157,684	3,076,153
Other reserves		41,831	59,108
Profit for the period		242,471	81,531
Guarantee fund		12,273	12,341
<b>Total equity</b>		<b>10,613,891</b>	<b>10,363,765</b>
<b>Total liabilities and total equity</b>		<b>28,181,572</b>	<b>28,706,542</b>

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

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

(All amounts are expressed in HRK thousand)

	Notes	2021 HRK '000	2020 HRK '000
<b>Operating activities</b>			
Profit before income tax		242,471	57,924
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation and amortization		8,441	7,011
Income tax		-	(228)
Impairment loss and provisions		4,387	129,860
Accrued interest		61,690	(206,973)
Deferred fees		(3,704)	(9,419)
Net loss from trading with derivative financial instruments		3,595	106
Other changes in assets at fair value		(41,706)	(2,208)
<i>Operating profit/(loss) before working capital changes</i>		<i>275,174</i>	<i>(23,927)</i>
<i>Changes in operating assets and liabilities:</i>			
Net decrease in deposits with other banks, before impairment		745	300,126
Net decrease in loans to financial institutions, before impairment		1,343,040	438,118
Net (increase)/decrease in loans to other customers, before loss impairment		(1,297,842)	139,740
Decrease of discount in debt securities issued and financial assets at fair value through other comprehensive income		-	1,498
Net decrease in foreclosed assets		2,677	187
Net (increase) in other assets, before impairment		(7,289)	(3,904)
Net increase in deposits from banks and companies		162,900	123,557
Net (decrease)/increase in other liabilities, before provisions		(18,530)	73,151
<b>Net cash provided from operating activities</b>		<b>460,875</b>	<b>1,048,546</b>
<b>Investment activities</b>			
Purchase of financial assets at fair value through profit or loss		(28,520)	(2,470)
Sale of financial assets at fair value through profit or loss		4,700	22,574
Purchase of financial assets at fair value through other comprehensive income		(1,287,538)	(1,664,343)
Sale of financial assets at fair value through other comprehensive income		1,505,422	464,394
Sale of debt instruments at amortised cost		-	448
Investments in subsidiaries – sales and write-offs		5,979	-
Net purchase of property, plant and equipment and intangible assets		(4,930)	(3,843)
<b>Net cash provided from/(used in) investment activities</b>		<b>195,113</b>	<b>(1,183,240)</b>
<b>Financing activities</b>			
Increase in founder's capital		25,000	25,000
Increase in borrowings – withdrawn funds		939,727	4,553,919
Decrease in borrowings – repayments of principal		(1,811,251)	(2,020,218)
Decrease in bonds payable – repayment		-	(1,135,104)
Other		264	(1,030)
<b>Net cash (used in)/provided from financing activities</b>		<b>(846,260)</b>	<b>1,422,567</b>
<b>Effect of foreign currency to cash and cash equivalents</b>			
Net foreign exchange		(66,277)	177,931
<b>Net effect</b>		<b>(66,277)</b>	<b>177,931</b>
Net (decrease)/increase in cash and cash equivalents		(256,549)	1,465,804
Cash and cash equivalents balance as at 1 January, before impairment		1,660,768	884,890
Net (decrease)/increase in cash and cash equivalents		(256,549)	1,465,804
<b>Cash and cash equivalents balance as at 30 September before impairment</b>	<b>9</b>	<b>1,404,219</b>	<b>2,350,694</b>
<b>Additional note - Operational cash flows</b>			
Interest paid		131,933	225,846
Interest received		463,987	247,667

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

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

(All amounts are expressed in HRK thousand)

	Founder's capital HRK '000	Retained earnings and reserves HRK '000	Other reserves HRK '000	Net profit for the period HRK '000	Guarantee fund HRK '000	Total HRK '000
<b>Balance as at 1 January 2020</b>	<b>7,109,632</b>	<b>2,921,855</b>	<b>76,610</b>	<b>154,298</b>	<b>12,186</b>	<b>10,274,581</b>
Profit for the period	-	-	-	57,696	-	57,696
Other comprehensive income	-	-	(18,872)	-	-	(18,872)
Total comprehensive income	-	-	(18,872)	57,696	-	38,824
Net foreign exchange – Guarantee fund	-	-	-	-	167	167
Capital paid-in from the State Budget	25,000	-	-	-	-	25,000
Transfer of profit 2019 to retained earnings	-	154,298	-	(154,298)	-	-
<b>Balance as at 30 September 2020</b>	<b>7,134,632</b>	<b>3,076,153</b>	<b>57,738</b>	<b>57,696</b>	<b>12,353</b>	<b>10,338,572</b>
<b>Balance as at 1 January 2021</b>	<b>7,134,632</b>	<b>3,076,153</b>	<b>59,108</b>	<b>81,531</b>	<b>12,341</b>	<b>10,363,765</b>
Profit for the period	-	-	-	242,471	-	242,471
Other comprehensive income	-	-	(17,277)	-	-	(17,277)
Total comprehensive income	-	-	(17,277)	242,471	-	225,194
Net foreign exchange – Guarantee fund	-	-	-	-	(68)	(68)
Capital paid-in from the State Budget	25,000	-	-	-	-	25,000
Transfer of profit 2020 to retained earnings	-	81,531	-	(81,531)	-	-
<b>Balance as at 30 September 2021</b>	<b>7,159,632</b>	<b>3,157,684</b>	<b>41,831</b>	<b>242,471</b>	<b>12,273</b>	<b>10,613,891</b>

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



Condensed Separate Interim Financial Statements of the Bank  
Income Statement  
for the period 1 January - 30 September

(All amounts are expressed in HRK thousand)

	Notes	2021		2020	
		Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000
Interest income calculated using the effective interest method	5	153,308	490,713	152,957	464,499
Interest expense	6	(44,210)	(141,445)	(55,274)	(189,607)
<b>Net interest income</b>		<b>109,098</b>	<b>349,268</b>	<b>97,683</b>	<b>274,892</b>
Fee and commission income		8,543	21,488	6,021	16,760
Fee and commission expense		(1,197)	(4,665)	(769)	(1,386)
<b>Net fee and commission income</b>		<b>7,346</b>	<b>16,823</b>	<b>5,252</b>	<b>15,374</b>
Net gains/(losses) on financial operations		(3,209)	(7,369)	6,754	(4,464)
Other income		3,764	20,828	1,526	5,283
		<b>116,999</b>	<b>379,550</b>	<b>111,215</b>	<b>291,085</b>
Employee expenses	7 a)	(24,459)	(70,319)	(23,493)	(68,598)
Depreciation and amortization	7 b)	(2,786)	(8,204)	(2,377)	(6,762)
Other expenses	7 c)	(20,350)	(55,832)	(9,554)	(30,520)
Impairment loss and provisions	8	(140,971)	(4,346)	(36,490)	(129,915)
<b>Profit/(loss) before income tax</b>		<b>(71,567)</b>	<b>240,849</b>	<b>39,301</b>	<b>55,290</b>
Income tax		-	-	-	-
<b>Profit/(loss) for the period</b>		<b>(71,567)</b>	<b>240,849</b>	<b>39,301</b>	<b>55,290</b>
<b>Profit/(loss) attributable to:</b>					
<b>Owner of the Bank</b>		<b>(71,567)</b>	<b>240,849</b>	<b>39,301</b>	<b>55,290</b>

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

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

(All amounts are expressed in HRK thousand)

	2021		2020	
	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000
<b>Profit/(loss) for the period</b>	<b>(71,567)</b>	<b>240,849</b>	<b>39,301</b>	<b>55,290</b>
<b>Other comprehensive income</b>				
<b>Items that may be reclassified subsequently to profit or loss:</b>				
Net changes in financial assets at fair value through other comprehensive income	(5,967)	(16,589)	2,203	(18,568)
Net foreign exchange on equity instruments	16	(144)	(51)	359
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>(5,951)</b>	<b>(16,733)</b>	<b>2,152</b>	<b>(18,209)</b>
<b>Other comprehensive income after income/(loss) tax</b>	<b>(5,951)</b>	<b>(16,733)</b>	<b>2,152</b>	<b>(18,209)</b>
<b>Total comprehensive income/(loss) after income tax</b>	<b>(77,518)</b>	<b>224,116</b>	<b>41,453</b>	<b>37,081</b>
<b>Profit/(loss) attributable to:</b>				
<b>Owner of the Bank</b>	<b>(77,518)</b>	<b>224,116</b>	<b>41,453</b>	<b>37,081</b>

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

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

(All amounts are expressed in HRK thousand)

	Notes	Sep 30, 2021 HRK '000	Dec 31, 2020 HRK '000
<b>Assets</b>			
Cash on hand and current accounts with banks	9	1,394,228	1,653,162
Deposits with other banks	10	6,535	7,337
Loans to financial institutions	11	7,512,930	8,842,580
Loans to other customers	12	16,073,481	14,796,179
Financial assets at fair value through profit or loss	13	224,000	191,756
Financial assets at fair value through other comprehensive income	14	2,801,872	3,053,326
Investments in subsidiaries		36,124	36,124
Investments in associates		-	-
Property, plant and equipment and intangible assets		43,571	45,592
Foreclosed assets	15	22,545	25,222
Other assets	16	35,211	29,082
<b>Total assets</b>		<b>28,150,497</b>	<b>28,680,360</b>
<b>Liabilities</b>			
Deposits from customers	17	1,137,233	974,393
Borrowings	18	15,930,480	16,863,935
Provisions for guarantees, commitments and other liabilities	19	121,765	107,796
Other liabilities	20	357,347	379,612
<b>Total liabilities</b>		<b>17,546,825</b>	<b>18,325,736</b>
<b>Equity</b>			
Founder's capital	26	7,159,632	7,134,632
Retained earnings and reserves		3,153,745	3,074,406
Other reserves		37,173	53,906
Profit for the period		240,849	79,339
Guarantee fund		12,273	12,341
<b>Total equity</b>		<b>10,603,672</b>	<b>10,354,624</b>
<b>Total liabilities and total equity</b>		<b>28,150,497</b>	<b>28,680,360</b>

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

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

(All amounts are expressed in HRK thousand)

	Notes	2021 HRK '000	2020 HRK '000
<b>Operating activities</b>			
Profit before income tax		240,849	55,290
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation and amortization		8,204	6,762
Impairment loss and provisions		4,346	129,915
Accrued interest		61,568	(207,160)
Deferred fees		(3,704)	(9,419)
Net loss from trading with derivative financial instruments		3,595	106
Other changes in assets at fair value		(41,706)	(2,208)
<i>Operating profit/(loss) before working capital changes</i>		<i>273,152</i>	<i>(26,714)</i>
<i>Changes in operating assets and liabilities:</i>			
Net decrease in deposits with other banks, before impairment		745	300,126
Net decrease in loans to financial institutions, before impairment		1,343,040	438,118
Net (increase)/decrease in loans to other customers, before impairment		(1,297,842)	139,740
Decrease of discount in debt securities issued		-	1,411
Net decrease in foreclosed assets		2,677	187
Net (increase) in other assets, before impairment		(5,447)	(5,871)
Net increase in deposits from banks and companies		162,900	123,557
Net (decrease)/increase in other liabilities, before provisions		(22,265)	75,070
<b>Net cash provided from operating activities</b>		<b>456,960</b>	<b>1,045,624</b>
<b>Investment activities</b>			
Purchase of financial assets at fair value through profit or loss income		(28,520)	(2,470)
Sale of financial assets at fair value through profit or loss		4,700	13,100
Purchase of financial assets at fair value through other comprehensive income		(1,284,544)	(1,661,299)
Sale of financial assets at fair value through other comprehensive income		1,503,422	461,048
Investments in subsidiaries – sales and write-offs		5,979	-
Net purchase of property, plant and equipment and intangible assets		(4,566)	(3,640)
<b>Net cash (used in)/provided from investment activities</b>		<b>196,471</b>	<b>(1,193,261)</b>
<b>Financing activities</b>			
Increase in founder's capital		25,000	25,000
Increase in borrowings – withdrawn funds		939,727	4,553,919
Decrease in borrowings – repayments of principle		(1,811,251)	(2,020,218)
Decrease in bonds payable - repayment		-	(1,135,104)
Other		198	(1,877)
<b>Net cash (used) in financing activities</b>		<b>(846,326)</b>	<b>1,421,720</b>
<b>Effect of foreign currency to cash and cash equivalents</b>			
Net foreign exchange		(66,399)	178,184
<b>Net effect</b>		<b>(66,399)</b>	<b>178,184</b>
Net (decrease)/increase in cash and cash equivalents		(259,294)	1,452,267
Cash and cash equivalents balance as at 1 January, before impairment		1,654,805	881,966
Net (decrease)/increase in cash and cash equivalents		(259,294)	1,452,267
<b>Cash and cash equivalents balance as at 30 September, before impairment</b>	<b>9</b>	<b>1,395,511</b>	<b>2,334,233</b>
<b>Additional note – operating activities</b>			
Interest paid		131,933	225,846
Interest received		463,883	246,564

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

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

(All amounts are expressed in HRK thousand)

	Founder's capital HRK '000	Retained earnings and reserves HRK '000	Other reserves HRK '000	Net profit for the period HRK '000	Guarantee fund HRK '000	Total equity HRK '000
<b>Balance as at 1 January 2020</b>	<b>7,109,632</b>	<b>2,919,356</b>	<b>70,870</b>	<b>155,050</b>	<b>12,186</b>	<b>10,267,094</b>
Profit for the period	-	-	-	55,290	-	55,290
Other comprehensive income	-	-	(18,209)	-	-	(18,209)
Total comprehensive income	-	-	(18,209)	55,290	-	37,081
Net foreign exchange – Guarantee fund	-	-	-	-	167	167
Capital paid-in from the State Budget	25,000	-	-	-	-	25,000
Transfer of profit 2019 to retained earnings	-	155,050	-	(155,050)	-	-
<b>Balance as at 30 September 2020</b>	<b>7,134,632</b>	<b>3,074,406</b>	<b>52,661</b>	<b>55,290</b>	<b>12,353</b>	<b>10,329,342</b>
<b>Balance as at 1 January 2021</b>	<b>7,134,632</b>	<b>3,074,406</b>	<b>53,906</b>	<b>79,339</b>	<b>12,341</b>	<b>10,354,624</b>
Profit for the period	-	-	-	240,849	-	240,849
Other comprehensive income	-	-	(16,733)	-	-	(16,733)
Total comprehensive income	-	-	(16,733)	240,849	-	224,116
Net foreign exchange – Guarantee fund	-	-	-	-	(68)	(68)
Capital paid-in from the State Budget	25,000	-	-	-	-	25,000
Transfer of profit 2020 to retained earnings	-	79,339	-	(79,339)	-	-
<b>Balance as at 30 September 2021</b>	<b>7,159,632</b>	<b>3,153,745</b>	<b>37,173</b>	<b>240,849</b>	<b>12,273</b>	<b>10,603,672</b>

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

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021

(All amounts are expressed in HRK thousand)

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**1. General information**

**1.1. Group:**

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

The headquarters of the Bank is located at Strossmayerov trg 9, Zagreb, Croatia,

The Group was formed in 2010, the Bank’s subsidiary companies are Hrvatsko kreditno osiguranje d.d. and Poslovni info servis d.o.o. that constitute the Hrvatsko kreditno osiguranje Group (“HKO Group”).

The Croatian Bank for Reconstruction and Development is the 100% owner of HKO, which is 100% owner of Poslovni info servis d.o.o.

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

As at 30 September 2021, the Group had 386 employees (30 September 2020: 389 employees).

**1.2. Bank:**

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

The Republic of Croatia guarantees HBOR’s liabilities unconditionally, irrevocably and on first call, without issuing any particular guarantee. The responsibility of the Republic of Croatia as guarantor for HBOR’s liabilities is joint and unlimited.

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

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**1. General information (continued)**

**1.2. Bank (continued):**

*Supervisory Board*

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

- Zdravko Marić, DSc, 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 Burilović, 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 at 30 September 2021, HBOR had 366 employees (30 September 2020: 368 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,
- 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 period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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## 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 period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**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)**

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 until at the latest:

- a) 30 September 2020 – for all clients of HBOR,
- b) 31 December 2020 – for all clients of HBOR that have a positive COVID score (with negative information included) according to FINA (Financial Agency),
- c) 30 June 2021 – for all clients of HBOR active in the tourism industry.

The previously mentioned general moratoriums were implemented until 31 March 2021, and after that date, it is possible to consider individual reschedulings due to COVID-19 and the earthquake by a separate assessment of individual debtors.

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:

- 8. Impairment loss and provisions;
- 23.3. Credit risk;
- 23.3.3. Analysis of input for ECL model within the framework of impact of macroeconomic conditions on PD;
- 23.3.2.5. Significant increase in credit risk and
- 23.4. 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 period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**2. Basis of Preparation of the Financial Statements**

**2.1. Statement of compliance**

The Condensed Interim Financial Statements of the Bank and HBOR Group for the period 1 January to 30 September 2021 have been prepared in accordance with the International Accounting Standard 34 Interim Financial Reporting.

The Condensed Interim Financial Statements for the period from 1 January to 30 September 2021 do not include all information and disclosures that are required in the annual financial statements and should be read in combination with the annual financial statements of the HBOR Group for the year ended 31 December 2020.

**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.

Significant accounting judgements and estimates were the same as those described in the last annual financial statements.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**4. Summary of significant accounting policies**

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

Numerous new standards and supplements to standards are in force for annual periods beginning on or after 1 January 2021 and earlier application is allowed; however, the Group has not adopted them earlier for the preparation of these financial statements. The Group considers that new standards and additions to the standards will not have a significant impact on consolidated and separate financial statements.

**4.1.1. Other standards**

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

- Amendments to IFRS 16 Leases: Covid-19- Related Rent Concessions beyond 30 June 2021 (EU effective date 1. April 2021),
- Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018 – 2020 (EU effective date 1 January 2022),
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (EU effective date 1 January 2021),
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9 (EU effective date 1 January 2021).

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

5. Interest income calculated using the effective interest method

Interest income by borrowers:

	2021		2020		2021		2020		Bank	
	Current period		Current period		Current period		Current period		Cumulatively	
	July 1 – September 30 HRK '000	January 1 – September 30 HRK '000	July 1 – September 30 HRK '000	January 1 – September 30 HRK '000	July 1 – September 30 HRK '000	January 1 – September 30 HRK '000	July 1 – September 30 HRK '000	January 1 – September 30 HRK '000	July 1 – September 30 HRK '000	January 1 – September 30 HRK '000
Public sector	36,401	105,907	34,478	84,916	36,089	104,959	34,202	84,063		
State-owned companies	7,499	22,271	1,405	16,489	7,499	22,271	1,405	16,489		
Foreign companies	2,070	16,950	9,312	27,907	2,070	16,950	9,312	27,907		
Domestic companies	73,828	227,499	69,996	214,849	73,828	227,499	69,996	214,849		
Domestic financial institutions	24,822	88,799	33,169	101,827	24,821	88,798	33,169	101,827		
Foreign financial institutions	543	1,455	2	106	543	1,455	2	106		
Penalty interest	4,785	15,954	954	6,613	4,785	15,954	954	6,613		
Other	3,673	12,827	3,917	12,645	3,673	12,827	3,917	12,645		
	<b>153,621</b>	<b>491,662</b>	<b>153,233</b>	<b>465,352</b>	<b>153,308</b>	<b>490,713</b>	<b>152,957</b>	<b>464,499</b>		

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

	2021				2020				2021				2020			
	Current period		Cumulatively January 1 – September 30		Current period		Cumulatively January 1 – September 30		Current period		Cumulatively January 1 – September 30		Current period		Cumulatively January 1 – September 30	
	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
Interest income by type of facility:																
- financial institutions	24,820	88,790	33,170	101,830	24,820	88,790	33,170	101,830	24,820	88,790	33,170	101,830	24,820	88,790	33,170	101,830
- other customers	121,690	378,946	112,305	341,146	121,690	378,946	112,305	341,146	121,690	378,946	112,305	341,146	121,690	378,946	112,305	341,146
	<b>146,510</b>	<b>467,736</b>	<b>145,475</b>	<b>442,976</b>	<b>146,510</b>	<b>467,736</b>	<b>145,475</b>	<b>442,976</b>	<b>146,510</b>	<b>467,736</b>	<b>145,475</b>	<b>442,976</b>	<b>146,510</b>	<b>467,736</b>	<b>145,475</b>	<b>442,976</b>
Investments in securities	6,567	22,461	7,756	22,268	6,254	21,512	7,480	21,415	6,254	21,512	7,480	21,415	6,254	21,512	7,480	21,415
- Bonds of the Republic of Croatia	6,416	21,812	7,519	21,770	6,111	20,887	7,249	20,932	6,111	20,887	7,249	20,932	6,111	20,887	7,249	20,932
- Corporate bonds	50	147	46	136	42	123	40	121	42	123	40	121	42	123	40	121
- Treasury bills of the Ministry of Finance	101	502	191	362	101	502	191	362	101	502	191	362	101	502	191	362
Deposits	544	1,465	2	108	544	1,465	2	108	544	1,465	2	108	544	1,465	2	108
	<b>153,621</b>	<b>491,662</b>	<b>153,233</b>	<b>465,352</b>	<b>153,308</b>	<b>490,713</b>	<b>152,957</b>	<b>464,499</b>	<b>153,308</b>	<b>490,713</b>	<b>152,957</b>	<b>464,499</b>	<b>153,308</b>	<b>490,713</b>	<b>152,957</b>	<b>464,499</b>

The main difference between interest income and interest received or collected (see Statement of Cash Flows) mostly relates to the income in respect to interest subsidies inflows that are recorded upon payment. The discounted amount of the interest subsidies provided for the final user is presented as deferred interest income and is recognised in profit or loss on a time basis during the repayment of the loan. Interest income earned on this basis for the period 1 January to 30 September 2021 amounts to HRK 34,801 thousand (1 January to 30 September 2020: HRK 28,708 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**6. Interest expense**

Interest expense by type of payee:

	2021				2020				2020				Bank
	Current period		Cumulatively		Current period		Cumulatively		Current period		Cumulatively		
	July 1 – September 30 HRK '000	January 1 – September 30 HRK '000	July 1 – September 30 HRK '000	January 1 – September 30 HRK '000	July 1 – September 30 HRK '000	January 1 – September 30 HRK '000	July 1 – September 30 HRK '000	January 1 – September 30 HRK '000	July 1 – September 30 HRK '000	January 1 – September 30 HRK '000	July 1 – September 30 HRK '000	January 1 – September 30 HRK '000	
Domestic financial institutions	-	6	-	336	-	6	-	336	-	-	-	336	
Foreign financial institutions	40,729	131,123	51,833	185,764	40,729	131,123	51,833	185,764	51,833	51,833	185,764	185,764	
State units	3,469	10,268	3,412	3,412	3,469	10,268	3,412	3,412	3,412	3,412	3,412	3,412	
Other	16	61	29	114	12	48	12	48	29	29	29	95	
	<b>44,214</b>	<b>141,458</b>	<b>55,274</b>	<b>189,626</b>	<b>44,210</b>	<b>141,445</b>	<b>55,274</b>	<b>189,607</b>	<b>55,274</b>	<b>55,274</b>	<b>189,607</b>	<b>189,607</b>	

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**6. Interest expense (continued)**

Interest expense by type of facility:

	Group						Bank	
	2021		2020		2021		2020	
	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
Borrowings	44,076	140,916	53,972	161,192	44,076	140,916	53,972	161,192
Debt securities	19	30	-	25,334	19	30	-	25,334
Deposits	103	451	1,273	2,986	103	451	1,273	2,986
Leases – interest expenses on long term contracts	16	61	29	114	12	48	29	95
	<b>44,214</b>	<b>141,458</b>	<b>55,274</b>	<b>189,626</b>	<b>44,210</b>	<b>141,445</b>	<b>55,274</b>	<b>189,607</b>

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.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**7. Operating expenses**

Operating expenses can be shown as follows:

	2021		2020		2021		2020		Bank
	Group		Group		Group		Group		
	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	
7 a) Employee expenses	25,643	73,960	24,635	71,852	24,459	70,319	23,493	68,598	
7 b) Depreciation	2,865	8,441	2,436	7,011	2,786	8,204	2,377	6,762	
7 c) Other expenses	21,189	59,288	10,306	32,845	20,350	55,832	9,554	30,520	
Of which:									
Administration expenses	9,314	16,256	1,821	6,317	9,199	15,974	1,755	6,103	
Material and services	7,252	21,473	6,472	20,486	6,871	20,304	6,043	19,372	
Other expenses	4,623	21,559	2,013	6,042	4,280	19,554	1,756	5,045	
	<b>49,697</b>	<b>141,689</b>	<b>37,377</b>	<b>111,708</b>	<b>47,595</b>	<b>134,355</b>	<b>35,424</b>	<b>105,880</b>	

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Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**7. Operating expenses (continued)**

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

	2021		2020		2021		2020	
	Group		Group		Bank		Bank	
	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000
Change in the claims provision	(241)	723	15	339	-	-	-	
Change in the claims provision, reinsurer's share	(57)	(363)	49	(206)	-	-	-	
<b>Expenses of insurance operations</b>	<b>(298)</b>	<b>360</b>	<b>64</b>	<b>133</b>	<b>-</b>	<b>-</b>	<b>-</b>	

Loss provisions as at 30 September 2021 consisted of reported and unreported losses in the approximate proportion 49:51. At the end of Q3 2021, total reserves exceeded those at the end of 2020 by 2.7%. The Bornhuetter-Ferguson method was used for gross provisions for unreported losses, and for reported losses, the amount was taken according to actual data on loss incurred. The reinsurance share was determined in accordance with the valid terms and conditions of the reinsurance contract.

## Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

### 8. Impairment gain/loss and provisions

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

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

	Group				Bank			
	2021		2020		2021		2020	
	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Impairment losses on cash on hand and due from financial institutions	207	(355)	273	1,732	204	(360)	270	1,710
Impairment losses on deposits with other banks	(2,204)	(1)	(671)	(1,183)	(2,204)	(1)	(671)	(1,183)
Impairment losses on loans to financial institutions	(3,335)	(15,094)	(245)	(5,797)	(3,335)	(15,094)	(245)	(5,797)
Impairment losses on loans to other customers and interest	176,605	(24,679)	9,320	25,356	176,605	(24,679)	9,320	25,356
Modification loss/(gain) – financial institutions	(286)	1,133	4,683	3,568	(286)	1,133	4,683	3,568
Modification (gain)/loss – other customers	(3,484)	(12,732)	24,387	59,458	(3,484)	(12,732)	24,387	59,458
POCI assets – fair value adjustment at initial recognition	3,878	45,151	108	17,584	3,878	45,151	108	17,584
Impairment of financial assets at fair value through other comprehensive income	(153)	(158)	435	854	(155)	(160)	435	855
Impairment losses on Debt instruments at amortised cost	-	-	(1)	(1)	-	-	-	-
Impairment losses on other assets	(2,074)	(2,281)	50	600	(2,041)	(2,299)	49	639
Provisions for commitments	(27,913)	1,746	(2,797)	29,848	(27,913)	1,746	(2,797)	29,848
Provision for guarantees	(2)	15,207	835	1,568	(2)	15,207	835	1,568
<b>Total</b>	<b>141,239</b>	<b>7,937</b>	<b>36,377</b>	<b>133,587</b>	<b>141,267</b>	<b>7,912</b>	<b>36,374</b>	<b>133,606</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**8. Impairment gain/loss and provisions (continued)**

**b) Other impairment gains/losses and provisions**

	Group						Bank	
	2021		2020		2021		2020	
	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000	Current period July 1 – September 30 HRK '000	Cumulatively January 1 – September 30 HRK '000
Provision for other liabilities	(298)	(3,606)	116	(3,727)	(296)	(3,566)	116	(3,691)
<b>Total</b>	(298)	(3,606)	116	(3,727)	(296)	(3,566)	116	(3,691)
<b>Total</b>	140,941	4,331	36,493	129,860	140,971	4,346	36,490	129,915

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

9. Cash on hand and current accounts with banks

	Group		Bank	
	30 September 2021 HRK '000	31 December 2020 HRK '000	30 September 2021 HRK '000	31 December 2020 HRK '000
Account with the Croatian National Bank	1,336,345	1,491,187	1,336,345	1,491,187
Cash on hand	1	5	1	5
Foreign currency account - domestic banks	195	155,772	186	155,766
Foreign currency account - foreign banks	59,046	9,512	58,979	7,847
Domestic currency account - domestic banks	8,632	4,292	-	-
	<b>1,404,219</b>	<b>1,660,768</b>	<b>1,395,511</b>	<b>1,654,805</b>
Loss allowances	(1,297)	(1,652)	(1,283)	(1,643)
	<b>1,402,922</b>	<b>1,659,116</b>	<b>1,394,228</b>	<b>1,653,162</b>

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:

30 September 2021

	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	1,404,218	-	-	1,404,218	1,395,510	-	-	1,395,510
Loss allowances	(1,297)	-	-	(1,297)	(1,283)	-	-	(1,283)
<b>Balance as at 30 September 2021</b>	<b>1,402,921</b>	<b>-</b>	<b>-</b>	<b>1,402,921</b>	<b>1,394,227</b>	<b>-</b>	<b>-</b>	<b>1,394,227</b>

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	1,660,763	-	-	1,660,763	1,654,800	-	-	1,654,800
Loss allowances	(1,652)	-	-	(1,652)	(1,643)	-	-	(1,643)
<b>Balance as at 31 December 2020</b>	<b>1,659,111</b>	<b>-</b>	<b>-</b>	<b>1,659,111</b>	<b>1,653,157</b>	<b>-</b>	<b>-</b>	<b>1,653,157</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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

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

	Jan 1 – Sep 30, 2021 HRK '000	Group Jan 1 - Dec 31, 2020 HRK '000	Jan 1 – Sep 30, 2021 HRK '000	Bank Jan 1 - Dec 31, 2020 HRK '000
Balance as at 1 January	1,652	483	1,643	479
Net (decrease)/increase of loss allowances on amounts due from banks	(355)	1,160	(360)	1,155
<i>Total recognised through Income Statement (Note 8)</i>	<i>(355)</i>	<i>1,160</i>	<i>(360)</i>	<i>1,155</i>
Net foreign exchange gain/loss on loss allowances	-	9	-	9
<b>Balance at the end of the reporting period</b>	<b>1,297</b>	<b>1,652</b>	<b>1,283</b>	<b>1,643</b>

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

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**10. Deposits with other banks**

	<b>30 September 2021 HRK '000</b>	<b>Group and Bank 31 December 2020 HRK '000</b>
Deposits with foreign banks	6,536	7,280
Deposits with domestic banks	-	-
Accrued interest	-	58
	<b>6,536</b>	<b>7,338</b>
Loss allowances	(1)	(1)
	<b>6,535</b>	<b>7,337</b>

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:

**30 September 2021**

	<b>Stage 1 HRK '000</b>	<b>Stage 2 HRK '000</b>	<b>Stage 3 HRK '000</b>	<b>Group and Bank Total HRK '000</b>
Gross amount	6,536	-	-	6,536
Loss allowances	(1)	-	-	(1)
<b>Balance as at 30 September 2021</b>	<b>6,535</b>	<b>-</b>	<b>-</b>	<b>6,535</b>

**31 December 2020**

	<b>Stage 1 HRK '000</b>	<b>Stage 2 HRK '000</b>	<b>Stage 3 HRK '000</b>	<b>Group and Bank Total HRK '000</b>
Gross amount	7,338	-	-	7,338
Loss allowances	(1)	-	-	(1)
<b>Balance as at 31 December 2020</b>	<b>7,337</b>	<b>-</b>	<b>-</b>	<b>7,337</b>

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**10. Deposits with other banks (continued)**

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

	Jan 1 - Sep 30, 2021 HRK '000	Group and Bank Jan 1 – Dec 31, 2020 HRK '000
Balance as at 1 January	1	1,256
Net (decrease) of loss allowances on deposits with other banks	(1)	(1,268)
<i>Total recognised through Income Statement (Note 8)</i>	<i>(1)</i>	<i>(1,268)</i>
Net foreign exchange gain/loss on loss allowances	1	13
<b>Balance at the end of the reporting period</b>	<b>1</b>	<b>1</b>

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)  
(All amounts are expressed in HRK thousand)

**11. Loans to financial institutions**

	<b>30 September 2021</b>	<b>Group and Bank 31 December 2020</b>
	<b>HRK '000</b>	<b>HRK '000</b>
Long-term loans under loan programmes	7,592,789	8,765,744
Short-term loans and reverse repo transactions	7,300	177,574
Accrued interest	3,885	10,907
Deferred recognition of loan origination fees	(23,616)	(28,848)
	<u>7,580,358</u>	<u>8,925,377</u>
Loss allowances	(67,428)	(82,797)
	<u><b>7,512,930</b></u>	<u><b>8,842,580</b></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:

<b>30 September 2021</b>	<b>Group and Bank</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
Gross amount	7,393,245	177,117	9,996	<b>7,580,358</b>
Loss allowances	(33,831)	(27,367)	(6,230)	<b>(67,428)</b>
<b>Balance as at 30 September 2021</b>	<u><b>7,359,414</b></u>	<u><b>149,750</b></u>	<u><b>3,766</b></u>	<u><b>7,512,930</b></u>

<b>31 December 2020</b>	<b>Group and Bank</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
Gross amount	8,650,474	254,544	20,359	<b>8,925,377</b>
Loss allowances	(36,795)	(35,435)	(10,567)	<b>(82,797)</b>
<b>Balance as at 31 December 2020</b>	<u><b>8,613,679</b></u>	<u><b>219,109</b></u>	<u><b>9,792</b></u>	<u><b>8,842,580</b></u>



Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**11. Loans to financial institutions (continued)**

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

	Jan 1 - Sep 30, 2021 HRK '000	Group and Bank Jan 1 - Dec 31, 2020 HRK '000
Balance as at 1 January	82,797	58,698
Net (decrease)/increase of loss allowances on loans to financial institutions	(15,094)	23,836
<i>Total recognised through Income Statement (Note 8)</i>	<i>(15,094)</i>	<i>23,836</i>
Net foreign exchange gain/loss on loss allowances	(173)	272
Loss allowances transferred to loans to other customers	(16)	(36)
Unwinding – changes due to the lapse of time	(86)	27
<b>Balance at the end of the reporting period</b>	<b>67,428</b>	<b>82,797</b>

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**11. Loans to financial institutions (continued)**

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

	<b>30 September 2021 HRK '000</b>	<b>Group and Bank 31 December 2020 HRK '000</b>
EU Projects	205,970	146,416
Financial Restructuring	3,371	3,792
Pre-Export Finance	1,010	1,015
Public Sector Investment	727,037	298,851
Private Sector Investment	189,317	169,996
Youth, Female, Start-up Entrepreneurship	50,585	31,056
Working Capital	4,104	1,778
Working Capital – COVID 19 measures	67,352	44,457
Loan programme for reconstruction and development of the economy	1,091,680	1,382,832
Export financing	1,671,629	2,095,602
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	1,156,432	1,421,077
Loan programme for small and medium-sized enterprises	2,420,535	3,164,285
Loan programme for war-torn and demolished housing and business facilities	3,767	4,587
Other	7,300	177,574
Accrued interest	3,885	10,907
Deferred recognition of loan fees	(23,616)	(28,848)
	<u>7,580,358</u>	<u>8,925,377</u>
Loss allowances	(67,428)	(82,797)
	<u><b>7,512,930</b></u>	<u><b>8,842,580</b></u>

Average interest rates for total loans to financial institutions are stated at 0.42% (1 January – 30 September 2020: 0.50%) 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 7,300 (31 December 2020: HRK 27,574 thousand), The above placements are collateralized by securities in the amount of HRK 7,698 thousand (31 December 2020: HRK 28,996 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**12. Loans to other customers**

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

	Group and Bank	
	30 September 2021 HRK '000	31 December 2020 HRK '000
Domestic companies	11,870,401	10,388,049
State-owned companies	1,018,071	1,474,038
Public sector	5,350,529	4,489,021
Foreign companies	368,115	981,652
Other	527,660	542,754
Accrued interest	440,782	484,863
Deferred recognition of loan origination fees	(85,218)	(88,468)
	19,490,340	18,271,909
Loss allowances	(3,416,859)	(3,475,730)
	<b>16,073,481</b>	<b>14,796,179</b>

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:

30 September 2021	Group and Bank				
	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Gross amount	13,124,170	1,282,550	3,673,336	1,410,284	<b>19,490,340</b>
Loss allowances	(395,008)	(450,283)	(2,351,593)	(219,975)	<b>(3,416,859)</b>
<b>Balance as at 30 September 2021</b>	<b>12,729,162</b>	<b>832,267</b>	<b>1,321,743</b>	<b>1,190,309</b>	<b>16,073,481</b>
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	<b>18,271,909</b>
Loss allowances	(353,077)	(517,219)	(2,422,493)	(182,941)	<b>(3,475,730)</b>
<b>Balance as at 31 December 2020</b>	<b>11,126,079</b>	<b>1,089,538</b>	<b>1,495,922</b>	<b>1,084,640</b>	<b>14,796,179</b>

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

for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**12. Loans to other customers (continued)**

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

	Jan 1 - Sep 30, 2021 HRK '000	Group and Bank Jan 1 - Dec 31, 2020 HRK '000
Balance as at 1 January	3,475,730	3,365,074
Net (decrease)/increase of loss allowances on loans to other customers and interest	(24,679)	69,861
<i>Total recognised through Income Statement (Note 8)</i>	<i>(24,679)</i>	<i>69,861</i>
Net foreign exchange gain/loss on loss allowances	2,027	479
Write-offs	(24,115)	(384)
Derecognition due to reduction to fair value	(48,019)	-
Loss allowances transferred from loans to financial institutions	16	36
Unwinding – changes due to the lapse of time	19,085	40,997
Acquisition of immovable property	-	(6,198)
Exchange of receivables	(737)	-
Interest transferred from the off-balance sheet records and other	17,551	5,865
<b>Balance at the end of the reporting period</b>	<b>3,416,859</b>	<b>3,475,730</b>

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**12. Loans to other customers (continued)**

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

	Group and Bank	
	30 September 2021	31 December 2020
	HRK '000	HRK '000
EU Projects	258,206	115,740
Financial Restructuring	1,196,740	834,309
Pre-Export Finance	95,825	38,528
Public Sector Investment	1,362,629	878,539
Private Sector Investment	697,255	509,264
Youth, Female, Start-up Entrepreneurship	28,286	13,111
Working Capital	566,009	347,833
Working Capital – COVID 19 measures	1,556,058	608,444
Loan programme for reconstruction and development of the economy	2,563,874	2,847,070
Export financing	4,560,659	5,377,356
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	4,658,647	4,535,276
Loan programme for small and medium-sized enterprises	1,296,597	1,503,037
Other	293,991	267,007
Accrued interest	440,782	484,863
Deferred recognition of loan origination fees	(85,218)	(88,468)
	19,490,340	18,271,909
Loss allowances	(3,416,859)	(3,475,730)
	<b>16,073,481</b>	<b>14,796,179</b>

Average interest rates on loans to other customers are stated at 1.78% (1 January – 30 September 2020: 1.66%).

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

13. Financial assets at fair value through profit or loss

	30 September 2021 HRK '000	Group and Bank 31 December 2020 HRK '000
<b>Loans at FVPL:</b>		
Mezzanine loans	15,905	2,658
	<b>15,905</b>	<b>2,658</b>
<b>Investments in investment funds:</b>		
Investments in investment funds at FVPL	207,747	188,289
	<b>207,747</b>	<b>188,289</b>
<b>Unlisted equity instruments:</b>		
Investments in corporate shares	31	31
Depository receipt - DR	317	319
Investments in financial institutions' shares	-	161
	<b>348</b>	<b>511</b>
<b>Derivative financial assets-positive fair value</b>	<b>-</b>	<b>298</b>
	<b>224,000</b>	<b>191,756</b>

Shares of unlisted companies and fair value in the amount of HRK 0 thousand (31 December 2020: HRK 0 thousand) relating to the company Vinka d.d. Vinkovci were removed by HBOR from the business books after the company was deleted from the court register on 10 September 2021.

The shares of companies not listed on the stock exchange in the amount of HRK 31 thousand (31 December 2020: HRK 31 thousand) (0.03% portion) relate to the shares of the company Helios Faros d.d., in bankruptcy, acquired by HBOR in the reporting period in substitution for a portion of receivables by accepting the company's bankruptcy restructuring plan.

Non-listed equity securities in the amount of HRK 317 thousand (31 December 2020: HRK 319 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 0 thousand (31 December 2020: HRK 161 thousand). Following the liquidation of the company Tržište novca i kratkoročnih vrijednosnica d.d. and the payment received after the liquidation, HBOR derecognised the shares from the business records.

As at 30 September 2021, a positive fair value of derivative financial instruments was stated in the amount of HRK 0 thousand (31 December 2020: HRK 298 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

14. Financial assets at fair value through other comprehensive income

	30 September 2021 HRK '000	Group 31 December 2020 HRK '000	30 September 2021 HRK '000	Bank 31 December 2020 HRK '000
<b>Debt instruments:</b>				
<b>Listed debt instruments:</b>				
Bonds of the Republic of Croatia	1,361,626	1,519,381	1,311,881	1,469,742
Corporate bonds	2,391	2,355	-	-
Treasury bills of the Ministry of Finance	1,449,912	1,537,395	1,449,912	1,537,395
Accrued interest	11,804	17,663	11,483	17,219
	<b>2,825,733</b>	<b>3,076,794</b>	<b>2,773,276</b>	<b>3,024,356</b>
<b>Unlisted debt instruments:</b>				
Corporate bonds	530	564	530	564
Convertible bonds - CB	1,393	1,307	1,393	1,307
Accrued interest	259	391	259	391
	<b>2,182</b>	<b>2,262</b>	<b>2,182</b>	<b>2,262</b>
<b>Equity instruments:</b>				
<b>Unlisted equity instruments:</b>				
Investments in shares of foreign legal entities – SWIFT	45	43	45	43
Shares of foreign financial institutions – EIF	26,369	26,665	26,369	26,665
	<b>26,414</b>	<b>26,708</b>	<b>26,414</b>	<b>26,708</b>
	<b>2,854,329</b>	<b>3,105,764</b>	<b>2,801,872</b>	<b>3,053,326</b>

Non-listed convertible bonds (CB) of the Fortenova Group TopCo B.V. in the amount of HRK 1,393 thousand (31 December 2020: HRK 1,307 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:

30 September 2021	Group							Bank
	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	Total HRK '000	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	Total HRK '000
Gross amount	2,826,475	-	1,440	2,827,915	2,774,018	-	1,440	2,775,458
Balance as at 30 September 2021	<b>2,826,475</b>	<b>-</b>	<b>1,440</b>	<b>2,827,915</b>	<b>2,774,018</b>	<b>-</b>	<b>1,440</b>	<b>2,775,458</b>
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 at 31 December 2020	<b>3,077,679</b>	<b>-</b>	<b>1,377</b>	<b>3,079,056</b>	<b>3,025,241</b>	<b>-</b>	<b>1,377</b>	<b>3,026,618</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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

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

	Group		Bank	
	Jan 1 – Sep 30, 2021 HRK '000	Jan 1 – Dec 31, 2020 HRK '000	Jan 1 – Sep 30, 2021 HRK '000	Jan 1 – Dec 31, 2020 HRK '000
Balance as at 1 January	4,582	3,355	4,499	3,283
Net (decrease)/increase of loss allowances	(158)	1,193	(160)	1,182
<i>Total recognised through Income Statement (Note 8)</i>	<i>(158)</i>	<i>1,193</i>	<i>(160)</i>	<i>1,182</i>
Net foreign exchange gain/loss on loss allowances	(15)	34	(15)	34
<b>Balance at the end of the reporting period</b>	<b>4,409</b>	<b>4,582</b>	<b>4,324</b>	<b>4,499</b>

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



Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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

The following text contains investment breakdown:

	Date of issue	Date of maturity	Interest rate (%)	30 September 2021 HRK '000	Group 31 December 2020 HRK '000	30 September 2021 HRK '000	Bank 31 December 2020 HRK '000	
<b>Listed debt instruments:</b>								
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	149,637	157,527	149,637	157,527
	RHMF-O-247E	10.7.2013.	10.7.2024.	5.75	49,143	17,857	44,101	12,608
	RHMF-O222E	5.2.2019.	5.2.2022.	0.5	15,009	15,149	15,009	15,149
<i>Bonds of the Republic of Croatia in foreign currency:</i>								
	XS1117298916	11.3.2015.	11.3.2025.	3.0	313,692	321,176	313,692	321,176
	XS1843434876	19.6.2019.	19.10.2029.	1.125	15,433	15,829	15,433	15,829
	XS1028953989	17.06.2020.	17.06.2031.	1,500	54,650	56,627	54,650	56,627
<i>Bonds of the Republic of Croatia in HRK:</i>								
	RHMF-O-257A	9.7.2015.	9.7.2025.	4.5	9,754	9,982	-	-
	RHMF-O-26CA	14.12.2015.	14.12.2026.	4.25	45,927	46,380	36,335	36,709
	RHMF-O-217A	8.7.2016.	8.7.2021.	2.75	-	221,281	-	219,251
	RHMF-O-222A	7.2.2017.	7.2.2022.	2.25	70,541	71,663	70,541	71,663
	RHMF-O-282A	7.2.2017.	7.2.2028.	2.875	13,787	13,786	11,597	11,591
	RHMF-O-023BA	27.11.2017.	27.11.2023.	1.75	510,965	462,464	510,965	462,464
	RHMF-O-297A	9.7.2018.	9.7.2029.	2.38	3,471	3,445	-	-
	RHMF-O-34BA	27.11.2019.	27.11.2034.	1.00	11,088	7,975	-	-
	RHMF-O-403E	3.3.2020.	3.3.2040.	1.25	8,608	9,092	-	-
	RHMF-O-253A	3.3.2020.	3.3.2025.	0.25	80,222	79,526	80,222	79,526
	RHMF-O-24BA	27.11.2019.	27.11.2024.	0.25	9,699	9,622	9,699	9,622
<i>Corporate bonds in HRK:</i>								
	JDGL-O-24XA	18.12.2019.	18.12.2024.	1.75	1,013	977	-	-
	HRATGRO25CA5	11.12.2020.	11.12.2025.	0.88	1,378	1,378	-	-
				(0.000-				
	Treasury bills in HRK up to 364 days			0.008)	1,299,984	1,009,812	1,299,984	1,009,812
	Treasury bills in foreign currency up to 364 days			(0.010)	149,928	527,583	149,928	527,583
	Accrued interest				11,804	17,663	11,483	17,219
					<b>2,825,733</b>	<b>3,076,794</b>	<b>2,773,276</b>	<b>3,024,356</b>
<b>Unlisted debt instruments:</b>								
<i>Corporate bonds with a currency clause:</i>								
	LNGU-O-31AE	24.7.2015.	15.10.2031.	4.5	530	564	530	564
<i>Bonds of foreign corporate in foreign currency</i>								
	Fortenova Group TopCo B.V.	1.4.2019.	1.4.2029.	2.5	1,393	1,307	1,393	1,307
	Accrued interest				259	391	259	391
					<b>2,182</b>	<b>2,262</b>	<b>2,182</b>	<b>2,262</b>
<b>Equity instruments:</b>								
<i>Unlisted equity instruments:</i>								
	Investments in shares of foreign legal entities - SWIFT				45	43	45	43
	Investments in shares of foreign financial institutions - EIF				26,369	26,665	26,369	26,665
					<b>26,414</b>	<b>26,708</b>	<b>26,414</b>	<b>26,708</b>
<b>Total</b>					<b>2,854,329</b>	<b>3,105,764</b>	<b>2,801,872</b>	<b>3,053,326</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**15. Foreclosed assets**

	<b>30 September 2021</b>	<b>Group and Bank</b>
	<b>HRK '000</b>	<b>31 December 2020</b>
		<b>HRK '000</b>
Foreclosed assets	22,545	25,222
	<b>22,545</b>	<b>25,222</b>

In the reporting period 2021, acquisition of property took place with present value in the amount of HRK 6,890 thousand, acquisition value of HRK 6,890 thousand and provisions of HRK 0 thousand, and relates to land plot in the amount of HRK 1,640 thousand, acquisition value of HRK 1,640 thousand and provisions of HRK 0 thousand, buildings in the amount of HRK 3,681 thousand, acquisition value of HRK 3,681 thousand and provisions of HRK 0 thousand and apartments in the amount of HRK 1,569 thousand, acquisition value of HRK 1,569 thousand and provisions of HRK 0 thousand (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).

Fair value of acquired property at the end of the third quarter of 2021 amounted to HRK 6,890 thousand.

In the reporting period, sale of foreclosed assets took place with present value in the amount of HRK 8,111 thousand, acquisition value of HRK 13,609 thousand and provisions of HRK 5,498 thousand relates to land plot in the amount of HRK 486 thousand, buildings in the amount of HRK 841 thousand and apartments in the amount of HRK 6,784 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 the reporting period 2021, foreclosed assets were transferred to lease on the item Investments in property in the amount of HRK 2,793 thousand (2020: HRK 1,435 thousand), which is presented under Other assets due to immaterial significance. In the reporting period, this property was depreciated in the amount of HRK 61 thousand (2020: HRK 85 thousand).

The fair value of foreclosed assets at the beginning of the reporting period stood at HRK 34,480 thousand and the end of the reporting period at HRK 27,474 thousand.

The amount of the adjustment for the Group and the Bank that has an effect on the profit or loss stood at HRK 0 thousand in 2021 (2020: increase of HRK 582 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

16. Other assets

	Group		Bank	
	30 September 2021 HRK '000	31 December 2020 HRK '000	30 September 2021 HRK '000	31 December 2020 HRK '000
Fees receivable	25,848	28,052	25,848	28,052
Other receivables	10,093	11,058	10,092	11,058
Prepaid expenses	2,183	2,315	1,903	2,115
Accrued income	25,083	17,684	25,083	17,685
Premium receivables	2,670	1,718	-	-
Receivables for reinsurance commissions	1,504	854	-	-
Receivables for risk assessment fees	419	350	-	-
Deferred tax assets	241	-	-	-
Leased assets	1,308	2,867	1,308	2,828
Other assets	3,195	1,778	3,069	1,740
	<b>72,544</b>	<b>66,676</b>	<b>67,303</b>	<b>63,478</b>
Loss allowances	(32,305)	(34,536)	(32,092)	(34,396)
	<b>40,239</b>	<b>32,140</b>	<b>35,211</b>	<b>29,082</b>

Lease assets are recognised in accordance with the application of the IFRS 16 and depreciation during the year stood at HRK 1,558 thousand for the Group and HRK 1,520 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:

30 September 2021	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	7,574	76	32,862	21	40,533	2,981	76	32,862	21	35,940
Loss allowances	(232)	(9)	(32,059)	(5)	(32,305)	(19)	(9)	(32,059)	(5)	(32,092)
Balance as at 30 September 2021	<b>7,342</b>	<b>67</b>	<b>803</b>	<b>16</b>	<b>8,228</b>	<b>2,962</b>	<b>67</b>	<b>803</b>	<b>16</b>	<b>3,848</b>

  

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 at 31 December 2020	<b>6,157</b>	<b>1</b>	<b>1,308</b>	<b>30</b>	<b>7,496</b>	<b>3,375</b>	<b>1</b>	<b>1,308</b>	<b>30</b>	<b>4,714</b>

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

16. Other assets (continued)

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

	Group		Bank	
	30 September 2021 HRK '000	31 December 2020 HRK '000	30 September 2021 HRK '000	31 December 2020 HRK '000
Fees receivable	25,848	28,052	25,848	28,052
Other receivables	10,093	11,058	10,092	11,058
Premium receivables	2,670	1,718	-	-
Receivables for reinsurance	1,504	854	-	-
Receivables for risk assessment fees	419	350	-	-
	<b>40,534</b>	<b>42,032</b>	<b>35,940</b>	<b>39,110</b>
Loss allowance	(32,305)	(34,536)	(32,092)	(34,396)
<b>Subtotal – credit risk</b>	<b>8,229</b>	<b>7,496</b>	<b>3,848</b>	<b>4,714</b>

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

	Group		Bank	
	Jan 1 - Sep 30, 2021 HRK '000	Jan 1 - Dec 31, 2020 HRK '000	Jan 1 - Sep 30, 2021 HRK '000	Jan 1 - Dec 31, 2020 HRK '000
Balance as at 1 January	34,536	35,570	34,396	35,436
Net (decrease) of loss allowances on other assets	(2,281)	(1,032)	(2,299)	(1,001)
<i>Total recognised through Income statement (Note 8)</i>	<i>(2,281)</i>	<i>(1,032)</i>	<i>(2,299)</i>	<i>(1,001)</i>
Acquisition of immovable property	-	(2)	-	(2)
Write-offs	(1)		(1)	
Net foreign exchange gain/loss on loss allowances	(4)	(37)	(4)	(37)
Other adjustments	55	37	-	-
<b>Balance at the end of the reporting period</b>	<b>32,305</b>	<b>34,536</b>	<b>32,092</b>	<b>34,396</b>

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**17. Deposits from customers**

	<b>30 September 2021 HRK '000</b>	<b>Group and Bank 31 December 2020 HRK '000</b>
Bank deposits	697,613	626,261
Foreign currency regular accounts of companies	6	6
Foreign currency account of the Ministry of Finance of the Republic of Croatia	6,561	9,114
Foreign currency special purpose accounts of the companies	59,365	25,657
Foreign currency special accounts of foreign financial institutions	4,177	5,685
State institutions' deposits	339,256	279,208
Other deposits	30,255	28,462
	<b>1,137,233</b>	<b>974,393</b>

Bank deposits in 2021 relate to loro deposits of the European Investment Bank (EIB) and Bulgarian Development Bank AD.

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 6,561 thousand (31 December 2020: HRK 9,114 thousand).

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 30 September 2021 amounted to HRK 4,177 thousand (31 December 2020: HRK 5,685 thousand).

HBOR does not pay interest on the above deposits.

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**18. Borrowings**

	<b>30 September 2021</b>	<b>Group and Bank 31 December 2020</b>
	<b>HRK '000</b>	<b>HRK '000</b>
Balance as at 1 January	16,852,094	14,385,635
New borrowings	939,727	4,994,515
Repayments	(1,811,251)	(2,664,047)
Net foreign exchange gain/loss	(71,308)	135,991
	<u>15,909,262</u>	<u>16,852,094</u>
Accrued interest	45,319	40,720
Deferred fees	(24,101)	(28,879)
	<u><b>15,930,480</b></u>	<u><b>16,863,935</b></u>

The bank is subject to financial clauses in some Contracts. On 30 September 2021 the Bank was in compliance with all required financial clauses from the Contract.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

19. Provisions for guarantees, commitments and other liabilities

	Group		Bank	
	30 September 2021	31 December 2020	30 September 2021	31 December 2020
	HRK '000	HRK '000	HRK '000	HRK '000
Provisions for guarantees and commitments	63,091	45,556	63,091	45,556
Provisions for other liabilities	58,896	62,500	58,674	62,240
	<b>121,987</b>	<b>108,056</b>	<b>121,765</b>	<b>107,796</b>

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

	Group		Bank	
	Jan 1 - Sep 30, 2021	Jan 1 - Dec 31, 2020	Jan 1 - Sep 30, 2021	Jan 1 - Dec 31, 2020
	HRK '000	HRK '000	HRK '000	HRK '000
Balance as at 1 January	45,556	57,716	45,556	57,716
Net increase of loss allowances on guarantees	15,207	2,184	15,207	2,184
<i>Total recognised through Income Statement (Note 8)</i>	<i>15,207</i>	<i>2,184</i>	<i>15,207</i>	<i>2,184</i>
Net increase/(release) of loss allowances on commitments	1,746	(13,998)	1,746	(13,998)
<i>Total recognised through Income Statement (Note 8)</i>	<i>1,746</i>	<i>(13,998)</i>	<i>1,746</i>	<i>(13,998)</i>
Net foreign exchange on loss allowances	582	(346)	582	(346)
<b>Balance at the end of the reporting period - Provisions for guarantees and commitments</b>	<b>63,091</b>	<b>45,556</b>	<b>63,091</b>	<b>45,556</b>
Balance as at 1 January	62,500	63,064	62,240	62,915
Net (release) of loss allowances on other liabilities	(3,606)	(4,230)	(3,566)	(4,341)
<i>Total recognised through Income Statement (Note 8)</i>	<i>(3,606)</i>	<i>(4,230)</i>	<i>(3,566)</i>	<i>(4,341)</i>
Unrealised actuarial gains/(losses)	-	3,666	-	3,666
Other	2	-	-	-
<b>Balance at the end of the reporting period - Provisions for other liabilities</b>	<b>58,896</b>	<b>62,500</b>	<b>58,674</b>	<b>62,240</b>

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

Out of the total provisions for guarantees and commitments, the amount of HRK 1,871 thousand relates to financial institutions (31 December 2020: HRK 8,492 thousand), HRK 60,710 thousand relates to domestic companies (31 December 2020: HRK 35,683 thousand), HRK 292 thousand relates to the public sector (31 December 2020: HRK 1,286 thousand), HRK 218 thousand relates to other (31 December 2020: HRK 95 thousand).

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**20. Other liabilities**

	Group		Bank	
	30 September 2021 HRK '000	31 December 2020 HRK '000	30 September 2021 HRK '000	31 December 2020 HRK '000
Liabilities in respect of subsidized interest (a)	136,596	139,722	136,596	139,722
Deferred recognition of interest income (b)	200,293	198,715	200,293	198,715
Accrued salaries	7,938	8,382	7,688	8,146
Liabilities to suppliers	1,599	2,090	1,517	2,017
Liabilities for prepaid receivables	7,592	24,342	7,592	24,342
Deferrable premium	4,651	3,650	-	-
Provisions for claims	5,704	5,584	-	-
Provisions for return premiums	1,379	1,143	-	-
Liabilities to re-insurers	5,679	3,277	-	-
Deferred tax liabilities	940	819	-	-
Corporate income tax-current liability	-	151	-	-
Lease liabilities	1,736	3,453	1,347	2,893
Other liabilities	3,839	5,065	2,279	3,777
Derivative financial liabilities (c)	35	-	35	-
	<b>377,981</b>	<b>396,393</b>	<b>357,347</b>	<b>379,612</b>

(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 133,247 thousand in respect of the Programme of Preferential Financing through HBOR's Loan Programmes (31 December 2020: HRK 131,273 thousand),
- HRK 2,989 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 2020: HRK 3,734 thousand),
- HRK 360 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 2020: HRK 4,715 thousand).

(b) Deferred recognition of interest income of HRK 200,293 thousand (31 December 2020: HRK 198,715 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 71,875 thousand (31 December 2020: HRK 74,659 thousand), and in respect of those already in repayment stage amounting to HRK 128,418 thousand (31 December 2020: HRK 124,056 thousand).

(c) Derivative financial liabilities

As at 30 September 2021, a negative fair value of derivative financial instruments was stated in the amount of HRK 35 thousand (31 December 2020: HRK 0 thousand).



Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**21. 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**

	<b>30 September 2021</b>	<b>31 December 2020</b>
	<b>HRK '000</b>	<b>HRK '000</b>
Guarantees issued in HRK	169,577	126,469
Guarantees issued in foreign currency	328,385	331,815
Undrawn loans	4,261,817	4,779,853
Open letters of credit	-	1,472
EIF – subscribed, not called up capital	47,974	48,236
EIF CROGIP Contracted Liability	332,596	287,683
EIF FRC2 Contracted Liability	6,471	9,487
	<u>5,146,820</u>	<u>5,585,015</u>
Provisions for guarantees and commitments	(63,091)	(45,556)
	<u><b>5,083,729</b></u>	<u><b>5,539,459</b></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:

<b>30 September 2021</b>	<b>Group and Bank</b>					
	<b>Stage 1 HRK '000</b>	<b>Stage 2 HRK '000</b>	<b>Stage 3 HRK '000</b>	<b>POCI HRK '000</b>	<b>Without stage HRK '000</b>	<b>Total HRK '000</b>
Gross amount	4,261,998	71,389	346,063	80,329	-	<b>4,759,779</b>
Loss allowances	(8,566)	(334)	(32,663)	(21,527)	-	<b>(63,091)</b>
<b>Balance as at 30 September 2021</b>	<u><b>4,253,432</b></u>	<u><b>71,055</b></u>	<u><b>313,400</b></u>	<u><b>58,802</b></u>	<u><b>-</b></u>	<u><b>4,696,689</b></u>
	<b>Group and Bank</b>					
<b>31 December 2020</b>	<b>Stage 1 HRK '000</b>	<b>Stage 2 HRK '000</b>	<b>Stage 3 HRK '000</b>	<b>POCI HRK '000</b>	<b>Without stage HRK '000</b>	<b>Total HRK '000</b>
Gross amount	4,644,976	153,026	338,419	101,716	1,472	<b>5,239,609</b>
Loss allowances	(8,659)	(11,523)	(17,525)	(7,849)	-	<b>(45,556)</b>
<b>Balance as at 31 December 2020</b>	<u><b>4,636,317</b></u>	<u><b>141,503</b></u>	<u><b>320,894</b></u>	<u><b>93,867</b></u>	<u><b>1,472</b></u>	<u><b>5,194,053</b></u>

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

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**21. 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 31%, 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.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**22. Related-party transactions**

Related parties are companies that directly or indirectly, through one or more intermediaries, control, or are controlled by, the reporting company.

The majority of related-party transactions relate to the transactions with the Republic of Croatia, the 100% owner of the Bank and state-owned companies over which the Republic of Croatia has the controlling influence.

All transactions stated were carried out under usual/regular conditions of the Bank.

Assets and liabilities as at 30 September 2021 and 31 December 2020, and income and expense for the period 1 January to 30 September 2021 and for the period 1 January to 30 September 2020 arising from transactions with related parties, including the Bank's key management personnel, include the following

a) Related-party transactions

Group	Assets		Liabilities	
	30 September 2021	30 September 2021	31 December 2020	31 December 2020
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	3,268,604	1,751,435	3,560,948	1,775,799
Government funds, executive authorities and agencies	4,635,071	233,387	3,424,357	169,844
State-owned companies	1,023,910	39	1,535,839	1,322
Associates	7	-	7	5
Key management personnel	3,448	2,391	253	2,204
<b>Total</b>	<b>8,931,040</b>	<b>1,987,252</b>	<b>8,521,404</b>	<b>1,949,174</b>

Group	Income		Expense	
	Jan 1 – Sep 30 2021	Jan 1 – Sep 30 2021	Jan 1 – Sep 30 2020	Jan 1 – Sep 30 2020
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	39,110	24,600	40,679	3,967
Government funds, executive authorities and agencies	65,895	2,049	76,857	4,983
State-owned companies	41,076	52,712	19,904	3,379
Associates	26	-	-	-
Key management personnel	3,711	6,511	59	6,004
<b>Total</b>	<b>149,818</b>	<b>85,872</b>	<b>137,499</b>	<b>18,333</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**22. Related-party transactions (continued)**

a) Related-party transactions (continued)

Bank	Assets		Liabilities	
	30 September 2021	30 September 2021	31 December 2020	31 December 2020
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	3,268,604	1,751,435	3,560,948	1,775,799
Government funds, executive authorities and agencies	4,584,967	233,310	3,371,905	169,665
State-owned companies	1,023,908	36	1,535,832	1,319
Subsidiary companies	36,124	-	36,124	-
Associates	7	-	7	5
Key management personnel	3,448	2,276	253	2,096
<b>Total</b>	<b>8,917,058</b>	<b>1,987,057</b>	<b>8,505,069</b>	<b>1,948,884</b>

  

Bank	Income		Expense	
	Jan 1 – Sep 30 2021	Jan 1 – Sep 30 2021	Jan 1 – Sep 30 2020	Jan 1 – Sep 30 2020
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	39,110	24,600	40,679	3,967
Government funds, executive authorities and agencies	64,964	2,020	75,990	4,964
State-owned companies	41,076	52,672	19,904	3,339
Subsidiary companies	-	-	-	-
Associates	26	1	-	-
Key management personnel	3,711	5,344	58	4,928
<b>Total</b>	<b>148,887</b>	<b>84,637</b>	<b>136,631</b>	<b>17,198</b>

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 period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**22. Related-party transactions (continued)**

b) Collateral received

	Group		Bank	
	30 September	31 December	30 September	31 December
	2021	2020	2021	2020
	HRK '000	HRK '000	HRK '000	HRK '000
The Republic of Croatia	6,688,508	5,150,786	6,685,898	5,148,197
State agencies	602,132	608,048	602,132	608,048
<b>Total</b>	<b>7,290,640</b>	<b>5,758,834</b>	<b>7,288,030</b>	<b>5,756,245</b>

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. Salaries for the Group in the reporting period amounted to HRK 6,451 thousand (1 January to 30 September 2020: HRK 5,887 thousand), and for the Bank amounted to HRK 5,341 thousand (1 January to 30 September 2020: HRK 4,868 thousand).

Remuneration for the work of the members of the Supervisory Board for the Group amounted to HRK 60 thousand (1 January to 30 September 2020: HRK 117 thousand) and for the Bank amounted to HRK 3 thousand (1 January to 30 September 2020: HRK 60 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  
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(All amounts are expressed in HRK thousand)

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### **23. 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.

#### **23.1. 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 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 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, and based on the results of liquidity projections ensures HRK and foreign currency funds necessary for timely settlement of liabilities and for disbursements of approved loans and planned loan approvals. In terms of liquidity risk management, the Group monitors and strives to achieve compatibility of contracted and planned placements with the respective sources according to maturity. The Group does not hold deposits of citizens and is therefore not exposed to wide daily fluctuations in liquidity.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.1. Overview of the most important risks (continued)**

**Liquidity risk (continued)**

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

**Interest rate risk**

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. The impact of changes in interest rates is also considered through the BPV (basis point value) calculation, and the economic value of the bank's book is also calculated. 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 Bank 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 Bank 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 Bank 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.

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.1. 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 2021, the impact of two significant operational risk events on the Bank's operations continued – the Covid-19 pandemic and the earthquake in Zagreb. The crisis events were recorded in 2020 in the database for operational risk, where the financial effects of these events are continuously updated.

With the aim of ensuring the uninterrupted conduct of business operations considering the non-usability of the earthquake-damaged main office building of the Bank and the compliance with pandemic protection measures, it was made possible for workers to continue working from home.

**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 period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.2. 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.

**Risk Management Division**

One of the important preconditions for the realisation of HBOR Business Strategy 2020-2024 was an organisational and operational improvement of the Risk Management organisational unit. Further to this, as of 1 May 2021, the Risk Management organisational unit has become the Risk Management Division. The Division is, just like the Risk Management organisational unit was, responsible for the control, identification, measurement, assessment and supervision of risks that HBOR is exposed or may be exposed to within the framework of its operations. Furthermore, for the purpose of establishing an adequate and effective risk control system, the Risk Management Division is also a permanent risk control function that is functionally and organisationally independent of the business processes and activities within which risks arise and which it monitors and supervises.

The Risk Management Division 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 period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.2. 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.

**23.3. 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).

The Credit Risk Management Ordinance is a comprehensive document, which also prescribes the methodologies intended for the assessment of operations of different client target groups.

In the case of direct financing, the Bank uses the Credit risk evaluation methodology (for loans over HRK 3,000 thousand) or the Credit scoring methodology (for loans below HRK 3,000 thousand) to determine creditworthiness. The Credit scoring methodology is used to determine creditworthiness of clients that belong to the "small loan portfolio" and contains seven 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, placements from HRK 300 thousand to HRK 1,500 thousand for all other entrepreneurs, placements from HRK 1,500 thousand to HRK 3,000 thousand to companies and placements to start-ups from HRK 1,500 to HRK 3,000 thousand and for all other 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 period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.3. Credit risk (continued)**

Pursuant to the HBOR Act, part of placements is approved through 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 Bank, as a developmental financial institution, supports growth and development of the Croatian economy through investment. For this reason, the clients mainly approach the Bank 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 Bank is constantly improving existing organisational and technical solutions, reports and internal acts and proposes new organisation regulations and implementation instructions.

By continuous monitoring and evaluation of the clients' businesses, efforts are made to identify difficulties in their operation on a timely basis. For clients with difficulties, the Bank 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.

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.

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. The Bank has considered every individual application for additional debt rescheduling/restructuring after the expiry of moratorium.

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.

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.3. Credit risk (continued)**

Together with the Ministry of Tourism and Sport, 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 for the purpose of greater flow and speed of approval of these loans. To a lesser extent, the possibility of liquidity financing was also used by other relevant ministries for the most affected activities (transport, wood processing, etc.)

***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 previous and this 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.

Macroeconomic forecasts show that long-term impacts will result in a higher level of risk and likely in a higher number of defaulting clients. The average portfolio risk profile remained mostly stable throughout the year and did not deteriorate significantly due to the macroeconomic crisis. The Bank has included in the calculation of the ECL the updated macroeconomic parameters, with respect to which it adjusted the PD rate in its forecasts in order to ensure that all potential future adverse effects are included in the ECL.

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; however, the exceptionally good tourist season interrupted the increase in the adverse effects of the COVID-19 pandemic on the Bank's portfolio that is significantly exposed to tourism and tourism supporting industries. In the future, Bank will continue to monitor the economic environment and will react by carrying out additional impairments as a result of the longevity of the COVID-19 pandemic.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.3. Credit risk (continued)**

**23.3.1. 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 Bank 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 loan.

**23.3.2. 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,
- and separate category of 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.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.3. Credit risk (continued)**

**23.3.2. Impairment assessment (continued)**

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.

**23.3.2.1. 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.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.3. Credit risk (continued)**

**23.3.2. Impairment assessment (continued)**

**23.3.2.1. Definition of default status and exit from default status (continued)**

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

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

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

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

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

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

**23.3.2.2. 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.

Notes to the Financial Statements which include significant accounting policies and other explanations  
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(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.3. Credit risk (continued)**

**23.3.2. Impairment assessment (continued)**

**23.3.2.2. Bank's procedure of internal rating and probability of default (PD) assessment (continued)**

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

For exposures to domestic financial institutions, owing to the fact that there is no external rating for all financial institutions in the Bank 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 Bank'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.

**23.3.2.3. 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 period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.3. Credit risk (continued)**

**23.3.2. Impairment assessment (continued)**

**23.3.2.4. 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.

**23.3.2.5. 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 period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.3. Credit risk (continued)**

**23.3.2. Impairment assessment (continued)**

**23.3.2.5. 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.

**23.3.2.6. 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 period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.3. Credit risk (continued)**

**23.3.3. 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 (gross domestic product), 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.

**23.3.4. 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 period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.3. Credit risk (continued)**

**23.3.5. 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.

**23.3.6. Analysis of risk concentration**

Through its development loan programmes, the Bank 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 Bank 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 at 30 September 2021, the highest credit exposure of the Group and of the Bank to one debtor equalled HRK 2,262,964 thousand (31 December 2020: HRK 2,675,492 thousand for the Group and HRK 2,669,528 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 period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.3. Credit risk (continued)**

**23.3.6. 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 of the Bank is currently not being used, i.e. the exposure does not exceed 25% of the capital in business transactions with any bank.

**23.3.7. 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.

Loans according to risk-sharing models under HBOR's loan programmes (primarily loans for investments and restructuring, and to a lesser extent for liquidity) are implemented in the manner that commercial banks are included in transactions and are agents (administrative, payment and collateral agents), but HBOR conducts the usual procedure as for any other direct loan and enters both exposures and collaterals in its business records when approving and contracting placements.

As part of measures to help the economy due to the coronavirus pandemic, it is possible to approve new liquidity loans to entrepreneurs that have been strongly 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 a large number of loan applications, the existing loan procedures prescribed by the Credit Risk Management Ordinance have been accelerated and shortened for this purpose.

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.3. Credit risk (continued)**

**23.3.8. 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 Bank 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 period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.3. Credit risk (continued)**

**23.3.8. Collaterals and other credit quality (creditworthiness) improvement (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 Bank approves part of its placements through financial institutions. As collateral for placements approved to final customers through financial institutions, the Bank 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 Bank 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 period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.3. Credit risk (continued)**

**23.3.8. 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 entrepreneurs in the tourism industry, that have been strongly affected by the crisis caused by the coronavirus pandemic, since 2020, direct lending has been made possible with collateral coverage of at least 50% of the loan. The same coverage is also provided to entrepreneurs in other industries to whom the so-called COVID working capital loans are financed under risk-sharing models.

During 2021, direct lending is possible to finance the liquidity of entrepreneurs that need working capital. These are clients affected by the earthquake and the clients operating or investing in Sisak-Moslavina County as well as the clients affected by the crisis caused by the coronavirus pandemic with the collateral coverage of at least 70% of the loan.

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 organisational 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.



Notes to the Financial Statements which include significant accounting policies  
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for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.3. Credit risk (continued)**

**23.3.9. Write-offs**

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. 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 30 September 2021 HRK '000	Highest exposure 31 December 2020 HRK '000	Highest exposure 30 September 2021 HRK '000	Highest exposure 31 December 2020 HRK '000
<b>Assets</b>				
Cash on hand and current accounts with banks	1,402,921	1,659,111	1,394,227	1,653,157
Deposits with other banks	6,535	7,337	6,535	7,337
Loans to financial institutions	7,512,930	8,842,580	7,512,930	8,842,580
Loans to other customers	16,073,481	14,796,179	16,073,481	14,796,179
Financial assets at fair value through profit or loss	15,905	2,956	15,905	2,956
Financial assets at fair value through other comprehensive income	2,827,915	3,079,056	2,775,458	3,026,618
Other assets	8,228	7,496	3,848	4,714
<b>Total</b>	<b>27,847,915</b>	<b>28,394,715</b>	<b>27,782,384</b>	<b>28,333,541</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	167,881	125,204	167,881	125,204
Issued guarantees in foreign currency	295,899	314,842	295,899	314,842
Open letters of credit in foreign currency	-	1,472	-	1,472
Undrawn loans	4,232,909	4,752,535	4,232,909	4,752,535
<b>Total</b>	<b>4,696,689</b>	<b>5,194,053</b>	<b>4,696,689</b>	<b>5,194,053</b>
<b>Total credit risk exposure</b>	<b>32,544,604</b>	<b>33,588,768</b>	<b>32,479,073</b>	<b>33,527,594</b>

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

**Concentration of risk and maximum credit risk exposure (continued)**

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

Group	Republic of Croatia	EU countries	Other countries	Total
30 September 2021	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>				
Cash on hand and current accounts with banks	1,343,962	48,264	10,695	1,402,921
Deposits with other banks	-	6,535	-	6,535
Loans to financial institutions	7,512,930	-	-	7,512,930
Loans to other customers	15,781,529	-	291,952	16,073,481
Financial assets at fair value through profit or loss	15,905	-	-	15,905
Financial assets at fair value through other comprehensive income	2,826,475	1,440	-	2,827,915
Other assets	5,649	252	2,327	8,228
<b>Total</b>	<b>27,486,450</b>	<b>56,491</b>	<b>304,974</b>	<b>27,847,915</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	167,881	-	-	167,881
Issued guarantees in foreign currency	295,899	-	-	295,899
Open letters of credit in foreign currency	-	-	-	-
Undrawn loans	4,229,715	-	3,194	4,232,909
<b>Total</b>	<b>4,693,495</b>	<b>-</b>	<b>3,194</b>	<b>4,696,689</b>
<b>Total credit risk exposure</b>	<b>32,179,945</b>	<b>56,491</b>	<b>308,168</b>	<b>32,544,604</b>

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

**Concentration of risk and maximum credit risk exposure (continued)**

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

Group	Republic of Croatia HRK '000	EU countries HRK '000	Other countries HRK '000	Total HRK '000
<b>31 December 2020</b>				
<b>Assets</b>				
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
<b>Total</b>	<b>27,597,237</b>	<b>16,340</b>	<b>781,138</b>	<b>28,394,715</b>
<b>Guarantees and commitments</b>				
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
<b>Total</b>	<b>5,172,676</b>	<b>-</b>	<b>21,377</b>	<b>5,194,053</b>
<b>Total credit risk exposure</b>	<b>32,769,913</b>	<b>16,340</b>	<b>802,515</b>	<b>33,588,768</b>

Notes to the Financial Statements which include significant accounting policies  
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(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

**Concentration of risk and maximum credit risk exposure (continued)**

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

Bank 30 September 2021	Republic of Croatia HRK '000	EU countries HRK '000	Other countries HRK '000	Total HRK '000
<b>Assets</b>				
Cash on hand and current accounts with banks	1,335,268	48,264	10,695	1,394,227
Deposits with other banks	-	6,535	-	6,535
Loans to financial institutions	7,512,930	-	-	7,512,930
Loans to other customers	15,781,529	-	291,952	16,073,481
Financial assets at fair value through profit or loss	15,905	-	-	15,905
Financial assets at fair value through other comprehensive income	2,774,018	1,440	-	2,775,458
Other assets	3,843	1	4	3,848
<b>Total</b>	<b>27,423,493</b>	<b>56,240</b>	<b>302,651</b>	<b>27,782,384</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	167,881	-	-	167,881
Issued guarantees in foreign currency	295,899	-	-	295,899
Undrawn loans	4,229,715	-	3,194	4,232,909
<b>Total</b>	<b>4,693,495</b>	<b>-</b>	<b>3,194</b>	<b>4,696,689</b>
<b>Total credit risk exposure</b>	<b>32,116,988</b>	<b>56,240</b>	<b>305,845</b>	<b>32,479,073</b>

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

**Concentration of risk and maximum credit risk exposure (continued)**

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

<b>Bank</b>	<b>Republic of Croatia</b>	<b>EU countries</b>	<b>Other countries</b>	<b>Total</b>
<b>31 December 2020</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
<b>Assets</b>				
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
<b>Total</b>	<b>27,537,207</b>	<b>16,246</b>	<b>780,088</b>	<b>28,333,541</b>
<b>Guarantees and commitments</b>				
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
<b>Total</b>	<b>5,172,676</b>	<b>-</b>	<b>21,377</b>	<b>5,194,053</b>
<b>Total credit risk exposure</b>	<b>32,709,883</b>	<b>16,246</b>	<b>801,465</b>	<b>33,527,594</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. 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
	30 September 2021	30 September 2021	31 December 2020	31 December 2020
	HRK '000	HRK '000	HRK '000	HRK '000
Financial intermediation and insurance	11,103,320	-	13,600,142	-
Water and electric supply and other infrastructure	1,992,809	1,021,067	1,927,789	1,136,584
Tourism	3,992,508	727,931	3,821,623	560,776
Transport, warehousing and connections	2,567,644	570,983	2,308,679	645,451
Shipbuilding	1,500,802	92,045	1,262,057	42,694
Agriculture and fishery	573,832	185,493	564,526	173,996
Food industry	1,023,940	177,185	1,024,670	139,475
Construction industry	2,897,499	163,801	2,442,149	185,442
Other industry	676,878	188,809	422,415	161,533
Public administration	2,816,801	2,813,465	3,065,554	3,064,916
Education	32,842	30,861	36,722	34,084
Manufacture of basic metals and fabricated metal products, except machinery and equipment	244,072	44,317	203,214	44,217
Manufacture of chemicals and chemical products	88,763	23,087	95,217	24,827
Manufacture of other non-metallic mineral products	177,591	132,584	168,235	53,238
Pharmaceutical industry	422,271	385,680	439,106	260,851
Manufacture of motor vehicles, trailers and semi-trailers	268,171	60,562	219,756	21,954
Other	2,164,861	285,840	1,986,914	306,054
<b>Total credit risk exposure</b>	<b>32,544,604</b>	<b>6,903,710</b>	<b>33,588,768</b>	<b>6,856,092</b>

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. 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
	30 September 2021 HRK '000	30 September 2021 HRK '000	31 December 2020 HRK '000	31 December 2020 HRK '000
Financial intermediation and insurance	11,092,049	-	13,593,044	-
Water and electric supply and other infrastructure	1,992,809	1,021,067	1,927,789	1,136,584
Tourism	3,992,508	727,931	3,821,623	560,776
Transport, warehousing and connections	2,567,571	570,910	2,308,501	645,273
Shipbuilding	1,500,802	92,045	1,262,057	42,694
Agriculture and fishery	573,611	185,271	564,506	173,976
Food industry	1,023,844	177,089	1,024,593	139,397
Construction industry	2,897,207	163,510	2,441,981	185,274
Other industry	676,617	188,547	422,077	161,194
Public administration	2,766,669	2,763,333	3,015,472	3,014,834
Education	32,842	30,861	36,722	34,084
Manufacture of basic metals and fabricated metal products, except machinery and equipment	243,966	44,210	203,139	44,142
Manufacture of chemicals and chemical products	88,763	23,088	95,217	24,828
Manufacture of other non-metallic mineral products	177,591	132,584	168,235	53,238
Pharmaceutical industry	420,752	384,161	437,600	259,346
Manufacture of motor vehicles, trailers and semi-trailers	268,171	60,562	219,756	21,954
Other	2,163,301	284,281	1,985,282	304,422
<b>Total credit risk exposure</b>	<b>32,479,073</b>	<b>6,849,450</b>	<b>33,527,594</b>	<b>6,802,016</b>

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

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



Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.3. Credit risk (continued)**

**Concentration of risk and maximum credit risk exposure (continued)**

The fair value of collateral for the Group as at 30 September 2021 amounted to HRK 25,640,894 thousand (31 December 2020: HRK 26,732,676 thousand) and for the Bank HRK 25,629,623 thousand (31 December 2020: HRK 26,725,578 thousand).

Net highest exposure as at 30 September 2021 for the Group amounted to HRK 6,903,710 thousand (31 December 2020: HRK 6,856,092 thousand) and for the Bank HRK 6,849,450 thousand (31 December 2020: HRK 6,802,016 thousand).

In the total net highest exposure after the effect of mitigation through collateral received as at 30 September 2021, the credit risk of HRK 4,323,133 thousand for the Group (31 December 2020: HRK 4,623,158 thousand) and HRK 4,273,076 thousand for the Bank (31 December 2020: HRK 4,573,075 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 492,441 thousand (31 December 2020: HRK 537,474 thousand), from local (regional) authorities of HRK 821,227 thousand (31 December 2020: HRK 807,097 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 186,117 thousand (31 December 2020: HRK 204,135 thousand), government funds of HRK 15 thousand (31 December 2020: HRK 13 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 2,823,333 thousand for the Group and HRK 2,773,276 thousand for the Bank (31 December 2020: HRK 3,074,439 thousand for the Group and HRK 3,024,356 thousand for the Bank).

Part of the placements with net exposure relates to placements provisionally and partially covered with collateral and the further increase in exposure has been stopped pending the submission of the full collateral necessary for compliance with the requested collateral coverage ratio.

Financial intermediation includes mainly commercial bank.

## Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

### 23. Risk management (continued)

#### 23.3. 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 30 September 2021	Net exposure of portfolio - risk Stage 1 HRK '000	Net exposure of portfolio - risk Stage 2 HRK '000	Net exposure of portfolio - risk Stage 3 HRK '000	Net exposure of portfolio of risk POCI HRK '000	Not subject to IFRS 9 HRK '000	Net exposure of total portfolio HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000	Not subject to IFRS 9 after the effect of mitigation through collateral received HRK '000	Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000
<b>Assets</b>												
Cash on hand and current accounts with banks	1,402,921	-	-	-	-	1,402,921	-	-	-	-	-	-
Deposits with other banks	6,535	-	-	-	-	6,535	-	-	-	-	-	-
Loans to financial institutions	7,359,414	149,750	3,766	-	-	7,512,930	-	-	-	-	-	-
Loans to other customers	12,729,162	832,267	1,321,743	1,190,309	-	16,073,481	3,080,913	107,797	244,703	34,003	-	3,467,416
Financial assets at fair value through profit or loss	-	-	-	-	15,905	15,905	-	-	-	-	15,905	15,905
Financial assets at fair value through other comprehensive income	2,826,475	-	1,440	-	-	2,826,475	2,826,475	-	1,440	-	-	2,827,915
Other assets	7,342	67	803	16	-	8,228	2,230	67	801	16	-	3,114
<b>Total</b>	<b>24,331,849</b>	<b>982,084</b>	<b>1,327,752</b>	<b>1,190,325</b>	<b>15,905</b>	<b>27,847,915</b>	<b>5,909,618</b>	<b>107,864</b>	<b>246,944</b>	<b>34,019</b>	<b>15,905</b>	<b>6,314,350</b>
<b>Guarantees and commitments</b>												
Guarantees issued in HRK	67,821	32,403	67,657	-	-	167,881	31,533	27,408	32,015	-	-	90,956
Issued guarantees in foreign currency	49,780	376	245,743	-	-	295,899	36,459	-	92,094	-	-	128,553
Undrawn loans	4,135,831	38,276	-	58,802	-	4,232,909	363,925	3,952	-	1,974	-	369,851
<b>Total</b>	<b>4,253,432</b>	<b>71,055</b>	<b>313,400</b>	<b>58,802</b>	<b>-</b>	<b>4,696,689</b>	<b>431,917</b>	<b>31,360</b>	<b>124,109</b>	<b>1,974</b>	<b>-</b>	<b>589,360</b>
<b>Total credit risk exposure</b>	<b>28,585,281</b>	<b>1,053,139</b>	<b>1,641,152</b>	<b>1,249,127</b>	<b>15,905</b>	<b>32,544,604</b>	<b>6,341,535</b>	<b>139,224</b>	<b>371,053</b>	<b>35,993</b>	<b>15,905</b>	<b>6,903,710</b>

## Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

### 23. Risk management (continued)

#### 23.3. 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 31 December 2020	Net exposure of portfolio - risk Stage 1 HRK '000	Net exposure of portfolio - risk Stage 2 HRK '000	Net exposure of portfolio - risk Stage 3 HRK '000	Net exposure of portfolio of risk POCI HRK '000	Net exposure of total portfolio HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000	Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000	Not subject to IFRS 9 after the effect of mitigation through collateral received HRK '000	Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000
<b>Assets</b>												
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	-	-	-	2,956	-	-	-	-	2,658	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
<b>Total</b>	<b>24,490,340</b>	<b>1,308,648</b>	<b>1,508,399</b>	<b>1,084,670</b>	<b>28,394,715</b>	<b>5,770,065</b>	<b>71,907</b>	<b>274,954</b>	<b>53,279</b>	<b>2,658</b>	<b>2,658</b>	<b>6,172,863</b>
<b>Guarantees and commitments</b>												
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	-	-	-	-	-	-	-
Undrawn loans	4,519,284	138,491	893	93,867	4,752,535	475,581	26,417	889	6,088	-	-	508,975
<b>Total</b>	<b>4,636,317</b>	<b>141,503</b>	<b>320,894</b>	<b>93,867</b>	<b>5,194,053</b>	<b>527,302</b>	<b>26,417</b>	<b>123,422</b>	<b>6,088</b>	<b>-</b>	<b>-</b>	<b>683,229</b>
<b>Total credit risk exposure</b>	<b>29,126,657</b>	<b>1,450,151</b>	<b>1,829,293</b>	<b>1,178,537</b>	<b>33,588,768</b>	<b>6,297,367</b>	<b>98,324</b>	<b>398,376</b>	<b>59,367</b>	<b>2,658</b>	<b>2,658</b>	<b>6,856,092</b>

# Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

## 23. Risk management (continued)

### 23.3. Credit risk (continued)

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

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

Bank	30 September 2021	Net exposure of portfolio - risk Stage 1 HRK '000	Net exposure of portfolio - risk Stage 2 HRK '000	Net exposure of portfolio - risk Stage 3 HRK '000	Net exposure of portfolio of risk POCI HRK '000	Not subject to IFRS 9 HRK '000	Net exposure of total portfolio HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000	Not subject to IFRS 9 after the effect of mitigation through collateral received HRK '000	Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000
<b>Assets</b>													
Cash on hand and current accounts with banks	1,394,227	-	-	-	-	-	1,394,227	-	-	-	-	-	-
Deposits with other banks	6,535	-	-	-	-	-	6,535	-	-	-	-	-	-
Loans to financial institutions	7,359,414	149,750	3,766	-	-	-	7,512,930	-	-	-	-	-	-
Loans to other customers	12,729,162	832,267	1,321,743	1,190,309	-	-	16,073,481	3,080,913	107,797	244,703	34,003	-	3,467,416
Financial assets at fair value through profit or loss	-	-	-	-	-	15,905	15,905	-	-	-	-	15,905	15,905
Financial assets at fair value through other comprehensive income	2,774,018	-	1,440	-	-	-	2,775,458	2,774,018	-	1,440	-	-	2,775,458
Other assets	2,962	67	803	16	-	-	3,848	427	67	801	16	-	1,311
<b>Total</b>	<b>24,266,318</b>	<b>982,084</b>	<b>1,327,752</b>	<b>1,190,325</b>	<b>15,905</b>	<b>27,782,384</b>	<b>5,855,358</b>	<b>107,864</b>	<b>246,944</b>	<b>34,019</b>	<b>15,905</b>	<b>15,905</b>	<b>6,260,090</b>
<b>Guarantees and commitments</b>													
Guarantees issued in HRK	67,821	32,403	67,657	-	-	-	167,881	31,533	27,408	32,015	-	-	90,956
Issued guarantees in foreign currency	49,780	376	245,743	-	-	-	36,459	36,459	-	92,094	-	-	128,553
Undrawn loans	4,135,831	38,276	-	58,802	-	-	4,232,909	363,925	3,952	-	1,974	-	369,851
<b>Total</b>	<b>4,253,432</b>	<b>71,055</b>	<b>313,400</b>	<b>58,802</b>	<b>-</b>	<b>4,696,689</b>	<b>431,917</b>	<b>31,360</b>	<b>124,109</b>	<b>1,974</b>	<b>-</b>	<b>-</b>	<b>589,360</b>
<b>Total credit risk exposure</b>	<b>28,519,750</b>	<b>1,053,139</b>	<b>1,641,152</b>	<b>1,249,127</b>	<b>15,905</b>	<b>32,479,073</b>	<b>6,287,275</b>	<b>139,224</b>	<b>371,053</b>	<b>35,993</b>	<b>15,905</b>	<b>15,905</b>	<b>6,849,450</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

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

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

Bank	Net exposure of portfolio - risk Stage 1 HRK '000	Net exposure of portfolio - risk Stage 2 HRK '000	Net exposure of portfolio - risk Stage 3 HRK '000	Net exposure of portfolio of risk POCI HRK '000	Not subject to IFRS 9 HRK '000	Net exposure of total portfolio HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000	Not subject to IFRS 9 after the effect of mitigation through collateral received HRK '000	Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000
<b>31 December 2020</b>												
<b>Assets</b>												
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
<b>Total</b>	<b>24,429,166</b>	<b>1,308,648</b>	<b>1,508,399</b>	<b>1,084,670</b>	<b>2,658</b>	<b>28,333,541</b>	<b>5,715,989</b>	<b>71,907</b>	<b>274,954</b>	<b>53,279</b>	<b>2,658</b>	<b>6,118,787</b>
<b>Guarantees and commitments</b>												
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
<b>Total</b>	<b>4,636,317</b>	<b>141,503</b>	<b>320,894</b>	<b>93,867</b>	<b>1,472</b>	<b>5,194,053</b>	<b>527,302</b>	<b>26,417</b>	<b>123,422</b>	<b>6,088</b>	<b>-</b>	<b>683,229</b>
<b>Total credit risk exposure</b>	<b>29,065,483</b>	<b>1,450,151</b>	<b>1,829,293</b>	<b>1,178,537</b>	<b>4,130</b>	<b>33,527,594</b>	<b>6,243,291</b>	<b>98,324</b>	<b>398,376</b>	<b>59,367</b>	<b>2,658</b>	<b>6,802,016</b>

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**23. Risk management (continued)**

**23.3. Credit risk (continued)**

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

As at 30 September 2021 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 1,499,596 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 492,252 thousand, local and regional authorities of HRK 821,227 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 186,117 thousand.

As at 30 September 2021 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 2,823,333 thousand for the Group and HRK 2,773,276 thousand for the Bank.

As at 30 September 2021 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 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.



Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. 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**

<b>Group</b>					
<b>30 September 2021</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	<b>Total</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
Balance at 1 January 2021	1,652	-	-	-	1,652
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(355)	-	-	-	(355)
Net foreign exchange gain/loss on loss allowances	-	-	-	-	-
<b>Balance at 30 September 2021</b>	<b>1,297</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,297</b>

<b>Group</b>					
<b>31 December 2020</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	<b>Total</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
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 gain/loss on loss allowances	9	-	-	-	9
<b>Balance at 31 December 2020</b>	<b>1,652</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,652</b>

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23, Risk management (continued)**

**23.3. Credit risk (continued)**

*i. Allowances*

**Cash on hand and current accounts with banks (continued)**

<b>Bank</b>					
<b>30 September 2021</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	<b>Total</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
Balance at 1 January 2021	1,643	-	-	-	1,643
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(360)	-	-	-	(360)
Net foreign exchange gain/loss on loss allowances	-	-	-	-	-
<b>Balance at 30 September 2021</b>	<b>1,283</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,283</b>

<b>Bank</b>					
<b>31 December 2020</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	<b>Total</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
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 gain/loss on loss allowances	9	-	-	-	9
<b>Balance at 31 December 2020</b>	<b>1,643</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,643</b>



Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

*i. Allowances*

**Deposits with other banks**

**Group and Bank**

**30 September 2021**

	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	1	-	-	-	1
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(1)	-	-	-	(1)
Net foreign exchange gain/loss on loss allowances	1	-	-	-	1
<b>Balance at 30 September 2021</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>

**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 gain/loss on loss allowances	13	-	-	-	13
<b>Balance at 31 December 2020</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

*i. Allowances*

**Loans to financial institutions**

**Group and Bank**

**30 September 2021**

	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	36,795	35,435	10,567	-	82,797
Transfer to Stage 1	1,734	(17)	(1,717)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(4,564)	(7,955)	(2,575)	-	(15,094)
Unwind – changes due to the lapse of time	(45)	-	(41)	-	(86)
Loss allowances transferred from/to loans to other customers	-	(16)	-	-	(16)
Net foreign exchange gain/loss on loss allowances	(89)	(80)	(4)	-	(173)
<b>Balance at 30 September 2021</b>	<b>33,831</b>	<b>27,367</b>	<b>6,230</b>	<b>-</b>	<b>67,428</b>

**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	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 gain/loss on loss allowances	149	95	28	-	272
<b>Balance at 31 December 2020</b>	<b>36,795</b>	<b>35,435</b>	<b>10,567</b>	<b>-</b>	<b>82,797</b>

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

*i. Allowances*

**Loans to other customers**

<b>Group and Bank 30 September 2021</b>	<b>Stage 1 HRK '000</b>	<b>Stage 2 HRK '000</b>	<b>Stage 3 HRK '000</b>	<b>POCI HRK '000</b>	<b>Total HRK '000</b>
Balance at 1 January 2021	353,077	517,219	2,422,493	182,941	3,475,730
Transfer to Stage 1	323,635	(287,912)	(35,723)	-	-
Transfer to Stage 2	(31,835)	35,923	(4,088)	-	-
Transfer to Stage 3	(268)	(42,854)	32,507	10,615	-
Net (release)/increase of loss allowance	(241,585)	229,713	29,567	(42,374)	(24,679)
Write-offs	(5,608)	-	(18,507)	-	(24,115)
Unwind – changes due to the lapse of time	(1,447)	(432)	6,579	14,385	19,085
Loss allowances transferred to/from loans to financial institutions	-	16	-	-	16
Acquisition of immovable property	-	-	(737)	-	(737)
Derecognition due to reduction to fair value	-	-	(84,977)	36,958	(48,019)
Other	-	-	-	17,551	17,551
Net foreign exchange gain/loss on loss allowances	(961)	(1,391)	4,480	(101)	2,027
<b>Balance at 30 September 2021</b>	<b>395,008</b>	<b>450,282</b>	<b>2,351,594</b>	<b>219,975</b>	<b>3,416,859</b>

<b>Group and Bank 31 December 2020</b>	<b>Stage 1 HRK '000</b>	<b>Stage 2 HRK '000</b>	<b>Stage 3 HRK '000</b>	<b>POCI HRK '000</b>	<b>Total HRK '000</b>
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 (release)/increase 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 gain/loss on loss allowances	3,729	4,806	(7,325)	(731)	479
<b>Balance at 31 December 2020</b>	<b>353,077</b>	<b>517,219</b>	<b>2,422,493</b>	<b>182,941</b>	<b>3,475,730</b>

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

*i. Allowances*

**Financial assets at fair value through other comprehensive income**

<b>Group</b> <b>30 September 2021</b>	<b>Stage 1</b> <b>HRK '000</b>	<b>Stage 2</b> <b>HRK '000</b>	<b>Stage 3</b> <b>HRK '000</b>	<b>POCI</b> <b>HRK '000</b>	<b>Total</b> <b>HRK '000</b>
Balance at 1 January 2021	2,935	-	1,647	-	4,582
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release)/increase of loss allowance	(218)	-	60	-	(158)
Net foreign exchange gain/loss on loss allowances	(5)	-	(10)	-	(15)
<b>Balance at 30 September 2021</b>	<b>2,712</b>	<b>-</b>	<b>1,697</b>	<b>-</b>	<b>4,409</b>

<b>Group</b> <b>31 December 2020</b>	<b>Stage 1</b> <b>HRK '000</b>	<b>Stage 2</b> <b>HRK '000</b>	<b>Stage 3</b> <b>HRK '000</b>	<b>POCI</b> <b>HRK '000</b>	<b>Total</b> <b>HRK '000</b>
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 gain/loss on loss allowances	6	-	28	-	34
<b>Balance at 31 December 2020</b>	<b>2,935</b>	<b>-</b>	<b>1,647</b>	<b>-</b>	<b>4,582</b>

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

*i. Allowances*

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

<b>Bank</b>					
<b>30 September 2021</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	<b>Total</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
Balance at 1 January 2021	2,852	-	1,647	-	4,499
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release)/increase of loss allowance	(220)	-	60	-	(160)
Net foreign exchange gain/loss on loss allowances	(5)	-	(10)	-	(15)
<b>Balance at 30 September 2021</b>	<b>2,627</b>	<b>-</b>	<b>1,697</b>	<b>-</b>	<b>4,324</b>

<b>Bank</b>					
<b>31 December 2020</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	<b>Total</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
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 gain/loss on loss allowances	6	-	28	-	34
<b>Balance at 31 December 2020</b>	<b>2,852</b>	<b>-</b>	<b>1,647</b>	<b>-</b>	<b>4,499</b>

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

*i. Allowances*

**Other assets**

<b>Group</b> <b>30 September 2021</b>	<b>Stage 1</b> <b>HRK '000</b>	<b>Stage 2</b> <b>HRK '000</b>	<b>Stage 3</b> <b>HRK '000</b>	<b>POCI</b> <b>HRK '000</b>	<b>Total</b> <b>HRK '000</b>
Balance at 1 January 2021	171	1	34,359	5	34,536
Transfer to Stage 1	1	-	(1)	-	-
Transfer to Stage 2	(4)	4	-	-	-
Transfer to Stage 3	(2)	-	2	-	-
Net increase/(release) of loss allowance	12	4	(2,297)	-	(2,281)
Write-offs	(1)	-	-	-	(1)
Foreclosed assets	-	-	-	-	-
Net foreign exchange gain/loss on loss allowances	-	-	(4)	-	(4)
Other adjustments	55	-	-	-	55
<b>Balance at 30 September 2021</b>	<b>232</b>	<b>9</b>	<b>32,059</b>	<b>5</b>	<b>32,305</b>

<b>Group</b> <b>31 December 2020</b>	<b>Stage 1</b> <b>HRK '000</b>	<b>Stage 2</b> <b>HRK '000</b>	<b>Stage 3</b> <b>HRK '000</b>	<b>POCI</b> <b>HRK '000</b>	<b>Total</b> <b>HRK '000</b>
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/loss on loss allowances	-	-	(37)	-	(37)
Other adjustments	37	-	-	-	37
<b>Balance at 31 December 2020</b>	<b>171</b>	<b>1</b>	<b>34,359</b>	<b>5</b>	<b>34,536</b>

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

*i. Allowances*

**Other assets (continued)**

<b>Bank</b>					
<b>30 September 2021</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	<b>Total</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
Balance at 1 January 2021	31	1	34,359	5	34,396
Transfer to Stage 1	1	-	(1)	-	-
Transfer to Stage 2	(4)	4	-	-	-
Transfer to Stage 3	(2)	-	2	-	-
Net (release)/increase of loss allowance	(6)	4	(2,297)	-	(2,299)
Write-offs	(1)	-	-	-	(1)
Foreclosed assets	-	-	-	-	-
Net foreign exchange gain/loss on loss allowances	-	-	(4)	-	(4)
<b>Balance at 30 September 2021</b>	<b>19</b>	<b>9</b>	<b>32,059</b>	<b>5</b>	<b>32,092</b>

<b>Bank</b>					
<b>31 December 2020</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	<b>Total</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
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 release of loss allowance	(4)	(7)	(989)	(1)	(1,001)
Foreclosed assets	-	-	(2)	-	(2)
Net foreign exchange gain/loss on loss allowances	-	-	(37)	-	(37)
<b>Balance at 31 December 2020</b>	<b>31</b>	<b>1</b>	<b>34,359</b>	<b>5</b>	<b>34,396</b>

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

*i. Allowances*

**Guarantees and commitments**

<b>Group and Bank 30 September 2021</b>	<b>Stage 1 HRK '000</b>	<b>Stage 2 HRK '000</b>	<b>Stage 3 HRK '000</b>	<b>POCI HRK '000</b>	<b>Total HRK '000</b>
Balance at 1 January 2021	8,659	11,523	17,525	7,849	45,556
Transfer to Stage 1	5,309	(5,309)	-	-	-
Transfer to Stage 2	(261)	261	-	-	-
Transfer to Stage 3	-	(1)	1	-	-
Net (release)/increase of loss allowance	(5,044)	(6,134)	14,405	13,726	16,953
Net foreign exchange gain/loss on loss allowances	(97)	(7)	733	(47)	582
<b>Balance at 30 September 2021</b>	<b>8,566</b>	<b>333</b>	<b>32,664</b>	<b>21,528</b>	<b>63,091</b>

<b>Group and Bank 31 December 2020</b>	<b>Stage 1 HRK '000</b>	<b>Stage 2 HRK '000</b>	<b>Stage 3 HRK '000</b>	<b>POCI HRK '000</b>	<b>Total HRK '000</b>
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 (release)/increase of loss allowance	(16,194)	(788)	228	4,941	(11,813)
Net foreign exchange gain/loss on loss allowances	404	141	(878)	(14)	(347)
<b>Balance at 31 December 2020</b>	<b>8,659</b>	<b>11,523</b>	<b>17,525</b>	<b>7,849</b>	<b>45,556</b>



Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.4. Liquidity risk**

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as at 30 September 2021 and 31 December 2020 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

Group 30 September 2021	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
<b>Assets</b>						
Cash on hand and current accounts with banks	1,402,922	-	-	-	-	1,402,922
Deposits with other banks	-	-	-	-	6,535	6,535
Loans to financial institutions*	69,787	249,729	960,878	1,972,274	4,260,262	7,512,930
Loans to other customers	1,910,834	432,131	1,233,065	3,063,877	9,433,574	16,073,481
Financial assets at fair value through profit or loss	208,095	-	-	-	15,905	224,000
Financial assets at fair value through other comprehensive income	2,842,266	11,889	174	-	-	2,854,329
Property, plant and equipment and intangible assets	-	-	-	-	44,591	44,591
Foreclosed assets	2,044	-	-	12,862	7,639	22,545
Other assets	6,303	16,136	13,107	2,710	1,983	40,239
<b>Total assets</b>	<b>6,442,251</b>	<b>709,885</b>	<b>2,207,224</b>	<b>5,051,723</b>	<b>13,770,489</b>	<b>28,181,572</b>
<b>Liabilities</b>						
Deposits from customers	816,125	36,507	82,259	98,083	104,259	1,137,233
Borrowings	108,617	514,294**	1,776,933	5,614,487	7,916,149	15,930,480
Provisions for guarantees, commitments and other liabilities	49,617	5,433	17,056	26,027	23,854	121,987
Other liabilities	161,162	18,216	45,662	81,774	71,167	377,981
<b>Total liabilities</b>	<b>1,135,521</b>	<b>574,450</b>	<b>1,921,910</b>	<b>5,820,371</b>	<b>8,115,429</b>	<b>17,567,681</b>
<b>Liquidity gap</b>	<b>5,306,730</b>	<b>135,435</b>	<b>285,314</b>	<b>(768,648)</b>	<b>5,655,060</b>	<b>10,613,891</b>
<b>Guarantees and commitments</b>						
Guarantees issued in HRK	169,577	-	-	-	-	169,577
Issued guarantees in foreign currency	328,385	-	-	-	-	328,385
Undrawn loans	4,261,817	-	-	-	-	4,261,817
EIF – subscribed, not called up capital	47,974	-	-	-	-	47,974
EIF CROGIP Contracted Liability	15,060	18,464	46,389	110,003	142,680	332,596
EIF FRC2 Contracted Liability	-	825	2,254	2,799	593	6,471
<b>Total guarantees and commitments</b>	<b>4,822,813</b>	<b>19,289</b>	<b>48,643</b>	<b>112,802</b>	<b>143,273</b>	<b>5,146,820</b>

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

\* *Receivables of HRK 7,300 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  
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for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.4. Liquidity risk (continued)**

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
<b>Assets</b>						
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
<b>Total assets</b>	<b>6,859,299</b>	<b>672,816</b>	<b>2,271,461</b>	<b>4,958,110</b>	<b>13,944,856</b>	<b>28,706,542</b>
<b>Liabilities</b>						
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
<b>Total liabilities</b>	<b>1,218,276</b>	<b>408,423</b>	<b>1,879,987</b>	<b>5,865,598</b>	<b>8,970,493</b>	<b>18,342,777</b>
<b>Liquidity gap</b>	<b>5,641,023</b>	<b>264,393</b>	<b>391,474</b>	<b>(907,488)</b>	<b>4,974,363</b>	<b>10,363,765</b>
<b>Guarantees and commitments</b>						
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
<b>Total guarantees and commitments</b>	<b>5,242,725</b>	<b>10,700</b>	<b>41,600</b>	<b>119,032</b>	<b>125,402</b>	<b>5,539,459</b>

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  
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for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.4. Liquidity risk (continued)**

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as at 30 September 2021 and 31 December 2020 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

Bank 30 September 2021	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
<b>Assets</b>						
Cash on hand and current accounts with banks	1,394,228	-	-	-	-	1,394,228
Deposits with other banks	-	-	-	-	6,535	6,535
Loans to financial institutions*	69,787	249,729	960,878	1,972,274	4,260,262	7,512,930
Loans to other customers	1,910,834	432,131	1,233,065	3,063,877	9,433,574	16,073,481
Financial assets at fair value through profit	208,095	-	-	-	15,905	224,000
Financial assets at fair value through other	2,790,131	11,741	-	-	-	2,801,872
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	43,571	43,571
Foreclosed assets	2,044	-	-	12,862	7,639	22,545
Other assets	4,320	13,557	12,882	2,710	1,742	35,211
<b>Total assets</b>	<b>6,379,439</b>	<b>707,158</b>	<b>2,206,825</b>	<b>5,051,723</b>	<b>13,805,352</b>	<b>28,150,497</b>
<b>Liabilities</b>						
Deposits from customers	816,125	36,507	82,259	98,083	104,259	1,137,233
Borrowings	108,617	514,294**	1,776,933	5,614,487	7,916,149	15,930,480
Provisions for guarantees, commitments and other liabilities	49,617	5,433	16,834	26,027	23,854	121,765
Other liabilities	160,381	12,527	38,583	72,225	73,631	357,347
<b>Total liabilities</b>	<b>1,134,740</b>	<b>568,761</b>	<b>1,914,609</b>	<b>5,810,822</b>	<b>8,117,893</b>	<b>17,546,825</b>
<b>Liquidity gap</b>	<b>5,244,699</b>	<b>138,397</b>	<b>292,216</b>	<b>(759,099)</b>	<b>5,687,459</b>	<b>10,603,672</b>
<b>Guarantees and commitments</b>						
Guarantees issued in HRK	169,577	-	-	-	-	169,577
Issued guarantees in foreign currency	328,385	-	-	-	-	328,385
Undrawn loans	4,261,817	-	-	-	-	4,261,817
EIF – subscribed, not called up capital	47,974	-	-	-	-	47,974
EIF CROGIP Contracted Liability	15,060	18,464	46,389	110,003	142,680	332,596
EIF FRC2 Contracted Liability	-	825	2,254	2,799	593	6,471
<b>Total guarantees and commitments</b>	<b>4,822,813</b>	<b>19,289</b>	<b>48,643</b>	<b>112,802</b>	<b>143,273</b>	<b>5,146,820</b>

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

\* *Receivables of HRK 7,300 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  
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for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.4. Liquidity risk (continued)**

Bank 31 December 2020	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
<b>Assets</b>						
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
<b>Total assets</b>	<b>6,799,237</b>	<b>671,608</b>	<b>2,271,282</b>	<b>4,958,109</b>	<b>13,980,124</b>	<b>28,680,360</b>
<b>Liabilities</b>						
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
<b>Total liabilities</b>	<b>1,217,558</b>	<b>404,989</b>	<b>1,874,110</b>	<b>5,856,378</b>	<b>8,972,701</b>	<b>18,325,736</b>
<b>Liquidity gap</b>	<b>5,581,679</b>	<b>266,619</b>	<b>397,172</b>	<b>(898,269)</b>	<b>5,007,423</b>	<b>10,354,624</b>
<b>Guarantees and commitments</b>						
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
<b>Total guarantees and commitments</b>	<b>5,242,725</b>	<b>10,700</b>	<b>41,600</b>	<b>119,032</b>	<b>125,402</b>	<b>5,539,459</b>

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  
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for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.4. 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
30 September 2021	month	months	months	years	years	
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>Financial liabilities</b>						
Deposits from customers	816,125	36,507	82,259	98,083	104,259	1,137,233
Borrowings	126,553	548,515	1,879,624	5,844,392	8,347,827	16,746,911
Provisions for guarantees, commitments and other liabilities	49,617	5,433	16,834	26,027	23,854	121,765
Other liabilities	160,381	12,527	38,583	72,225	73,631	357,347
<b>Total</b>	<b>1,152,676</b>	<b>602,982</b>	<b>2,017,300</b>	<b>6,040,727</b>	<b>8,549,571</b>	<b>18,363,256</b>
<b>Guarantees and commitments</b>						
Guarantees issued in HRK	169,577	-	-	-	-	169,577
Issued guarantees in foreign currency	328,385	-	-	-	-	328,385
Undrawn loans	4,261,817	-	-	-	-	4,261,817
EIF – subscribed, not called up capital	47,974	-	-	-	-	47,974
EIF CROGIP Contracted Liability	15,060	18,464	46,389	110,003	142,680	332,596
EIF FRC2 Contracted Liability	-	825	2,254	2,799	593	6,471
<b>Total guarantees and commitments</b>	<b>4,822,813</b>	<b>19,289</b>	<b>48,643</b>	<b>112,802</b>	<b>143,273</b>	<b>5,146,820</b>
<b>Group</b>	<b>Up to 1</b>	<b>1 - 3</b>	<b>3 - 12</b>	<b>1 - 3</b>	<b>Over 3</b>	<b>Total</b>
<b>31 December 2020</b>	<b>month</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>years</b>	
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>Financial liabilities</b>						
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
<b>Total</b>	<b>1,234,838</b>	<b>429,619</b>	<b>2,022,891</b>	<b>6,139,914</b>	<b>9,465,852</b>	<b>19,293,114</b>
<b>Guarantees and commitments</b>						
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
<b>Total guarantees and commitments</b>	<b>5,242,725</b>	<b>10,700</b>	<b>41,600</b>	<b>119,032</b>	<b>125,402</b>	<b>5,539,459</b>

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.4. 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 30 September 2021	Up to 1 month HRK '000	1 - 3 months HRK '000	3 - 12 months HRK '000	1 - 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
<b>Financial liabilities</b>						
Deposits from customers	816,125	36,507	82,259	98,083	104,259	1,137,233
Borrowings	126,553	548,515	1,879,624	5,844,392	8,347,827	16,746,911
Provisions for guarantees, commitments and other liabilities	49,617	5,433	16,834	26,027	23,854	121,765
Other liabilities	160,381	12,527	38,583	72,225	73,631	357,347
<b>Total</b>	<b>1,152,676</b>	<b>602,982</b>	<b>2,017,300</b>	<b>6,040,727</b>	<b>8,549,571</b>	<b>18,363,256</b>
<b>Guarantees and commitments</b>						
Guarantees issued in HRK	169,577	-	-	-	-	169,577
Issued guarantees in foreign currency	328,385	-	-	-	-	328,385
Undrawn loans	4,261,817	-	-	-	-	4,261,817
EIF – subscribed, not called up capital	47,974	-	-	-	-	47,974
EIF CROGIP Contracted Liability	15,060	18,464	46,389	110,003	142,680	332,596
EIF FRC2 Contracted Liability	-	825	2,254	2,799	593	6,471
<b>Total guarantees and commitments</b>	<b>4,822,813</b>	<b>19,289</b>	<b>48,643</b>	<b>112,802</b>	<b>143,273</b>	<b>5,146,820</b>
<b>Bank 31 December 2020</b>	<b>Up to 1 month HRK '000</b>	<b>1 - 3 months HRK '000</b>	<b>3 - 12 months HRK '000</b>	<b>1 - 3 years HRK '000</b>	<b>Over 3 years HRK '000</b>	<b>Total HRK '000</b>
<b>Financial liabilities</b>						
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
<b>Total</b>	<b>1,234,120</b>	<b>426,185</b>	<b>2,017,014</b>	<b>6,130,694</b>	<b>9,468,060</b>	<b>19,276,073</b>
<b>Guarantees and commitments</b>						
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
<b>Total guarantees and commitments</b>	<b>5,242,725</b>	<b>10,700</b>	<b>41,600</b>	<b>119,032</b>	<b>125,402</b>	<b>5,539,459</b>

Notes to the Financial Statements which include significant accounting policies  
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for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.5. Market risk**

Market risk management in the Bank implies minimizing interest rate risk and currency risk.

**23.5.1. Interest rate risk**

The following tables demonstrate the sensitivity of the Group to the interest rate risk as at 30 September 2021 and 31 December 2020 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 at 30 September 2021 and 31 December 2020 which may not be indicative for the positions in other periods.

Group	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total	Fixed interest rate
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>30 September 2021</b>								
<b>Assets</b>								
Cash on hand and current accounts with banks	67,837	-	-	-	-	1,335,085	1,402,922	67,837
Deposits with other banks	-	-	-	-	-	6,535	6,535	-
Loans to financial institutions	65,426	387,127	933,620	1,916,746	4,206,239	3,772	7,512,930	7,360,369
Loans to other customers	1,726,006	746,900	1,411,934	2,923,742	9,024,320	240,579	16,073,481	15,012,167
Financial assets at fair value through profit or loss	-	-	-	-	15,905	208,095	224,000	15,905
Financial assets at fair value through other comprehensive income	2,815,852	-	-	-	-	38,477	2,854,329	2,815,852
Other assets	-	-	-	-	-	40,239	40,239	-
<b>Total assets</b>	<b>4,675,121</b>	<b>1,134,027</b>	<b>2,345,554</b>	<b>4,840,488</b>	<b>13,246,464</b>	<b>1,872,782</b>	<b>28,114,436</b>	<b>25,272,130</b>
<b>Liabilities</b>								
Deposits from customers	697,064	-	-	-	-	440,169	1,137,233	697,064
Borrowings	108,617	468,975	1,776,933	5,614,487	7,916,149	45,319	15,930,480	15,885,161
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	121,987	121,987	-
Other liabilities	-	35	-	-	-	377,946	377,981	35
<b>Total liabilities</b>	<b>805,681</b>	<b>469,010</b>	<b>1,776,933</b>	<b>5,614,487</b>	<b>7,916,149</b>	<b>985,421</b>	<b>17,567,681</b>	<b>16,582,260</b>
<b>Interest rate gap</b>	<b>3,869,440</b>	<b>665,017</b>	<b>568,621</b>	<b>(773,999)</b>	<b>5,330,315</b>	<b>887,361</b>	<b>10,546,755</b>	<b>8,689,870</b>

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.5. Market risk (continued)**

**23.5.1. 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
<b>31 December 2020</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
<b>Assets</b>								
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	-
<b>Total assets</b>	<b>5,056,382</b>	<b>1,140,540</b>	<b>2,314,128</b>	<b>4,738,649</b>	<b>13,329,920</b>	<b>2,055,253</b>	<b>28,634,872</b>	<b>25,516,028</b>
<b>Liabilities</b>								
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	-
<b>Total liabilities</b>	<b>198,450</b>	<b>328,361</b>	<b>1,729,314</b>	<b>5,710,981</b>	<b>8,856,109</b>	<b>1,519,562</b>	<b>18,342,777</b>	<b>16,823,215</b>
<b>Interest rate gap</b>	<b>4,857,932</b>	<b>812,179</b>	<b>584,814</b>	<b>(972,332)</b>	<b>4,473,811</b>	<b>535,691</b>	<b>10,292,095</b>	<b>8,692,813</b>



Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.5. Market risk (continued)**

**23.5.1. Interest rate risk (continued)**

The following tables demonstrate the sensitivity of the HBOR to the interest rate risk as at 30 September 2021 and 31 December 2020 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter.

Assets and liabilities on which interest is not charged are placed into the non-interest bearing category. The tables below demonstrate the estimation of HBORS's interest rate risk exposure as at 30 September 2021 and 31 December 2020 which may not be indicative for the positions in other periods.

Bank	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total	Fixed interest rate
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>30 September 2021</b>								
<b>Assets</b>								
Cash on hand and current								
accounts with banks	59,143	-	-	-	-	1,335,085	1,394,228	59,143
Deposits with other banks	-	-	-	-	-	6,535	6,535	-
Loans to financial institutions	65,426	387,127	933,620	1,916,746	4,206,239	3,772	7,512,930	7,360,369
Loans to other customers	1,726,006	746,900	1,411,934	2,923,742	9,024,320	240,579	16,073,481	15,012,167
Financial assets at fair value through profit or loss	-	-	-	-	15,905	208,095	224,000	15,905
Financial assets at fair value through other comprehensive income	2,763,716	-	-	-	-	38,156	2,801,872	2,763,716
Other assets	-	-	-	-	-	35,211	35,211	-
<b>Total assets</b>	<b>4,614,291</b>	<b>1,134,027</b>	<b>2,345,554</b>	<b>4,840,488</b>	<b>13,246,464</b>	<b>1,867,433</b>	<b>28,048,257</b>	<b>25,211,300</b>
<b>Liabilities</b>								
Deposits from customers	697,064	-	-	-	-	440,169	1,137,233	697,064
Borrowings	108,617	468,975	1,776,933	5,614,487	7,916,149	45,319	15,930,480	15,885,161
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	121,765	121,765	-
Other liabilities	-	35	-	-	-	357,312	357,347	35
<b>Total liabilities</b>	<b>805,681</b>	<b>469,010</b>	<b>1,776,933</b>	<b>5,614,487</b>	<b>7,916,149</b>	<b>964,565</b>	<b>17,546,825</b>	<b>16,582,260</b>
<b>Interest rate gap</b>	<b>3,808,610</b>	<b>665,017</b>	<b>568,621</b>	<b>(773,999)</b>	<b>5,330,315</b>	<b>902,868</b>	<b>10,501,432</b>	<b>8,629,040</b>

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.5. Market risk (continued)**

**23.5.1. Interest rate risk (continued)**

Bank	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total	Fixed interest rate
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>31 December 2020</b>								
<b>Assets</b>								
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	-
<b>Total assets</b>	<b>4,998,434</b>	<b>1,140,540</b>	<b>2,314,128</b>	<b>4,738,649</b>	<b>13,329,920</b>	<b>2,051,751</b>	<b>28,573,422</b>	<b>25,458,080</b>
<b>Liabilities</b>								
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	-
<b>Total liabilities</b>	<b>198,450</b>	<b>328,361</b>	<b>1,729,314</b>	<b>5,710,981</b>	<b>8,856,109</b>	<b>1,502,521</b>	<b>18,325,736</b>	<b>16,823,215</b>
<b>Interest rate gap</b>	<b>4,799,984</b>	<b>812,179</b>	<b>584,814</b>	<b>(972,332)</b>	<b>4,473,811</b>	<b>549,230</b>	<b>10,247,686</b>	<b>8,634,865</b>

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.5. Market risk (continued)**

**23.5.1. Interest rate risk (continued)**

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

	Group		Bank	
	30 September	31 December	30 September	31 December
	2021	2020	2021	2020
	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>				
Fixed interest rate assets	25,272,130	25,516,028	25,211,300	25,458,080
Variable interest rate assets	969,524	1,063,591	969,524	1,063,591
Non-interest bearing	1,872,782	2,055,253	1,867,433	2,051,751
<b>Total</b>	<b>28,114,436</b>	<b>28,634,872</b>	<b>28,048,257</b>	<b>28,573,422</b>
<b>Liabilities</b>				
Fixed interest rate liabilities	16,582,260	16,823,215	16,582,260	16,823,215
Variable interest rate liabilities	-	-	-	-
Non-interest bearing	985,421	1,519,562	964,565	1,502,521
<b>Total liabilities</b>	<b>17,567,681</b>	<b>18,342,777</b>	<b>17,546,825</b>	<b>18,325,736</b>

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.5. Market risk (continued)**

**23.5.1. Interest rate risk (continued)**

**Sensitivity analysis**

Assumptions used in preparing the interest risk sensitivity analysis relate to possible changes in reference interest rates in order to assess the hypothetical effect on HBOR's profit.

Volatility of reference interest rates in the previous 12 months comparing to the reporting date has been determined using the standard deviation method on the daily changes of the reference interest rates linked to EUR and USD. On the basis of the above volatility, possible changes in reference interest rates linked to EUR and USD have been established and used in the sensitivity analysis.

The analysis presents the sensitivity of interest rates to reasonably expected changes in basis points of variable interest rates. All other variables remain constant.

The sensitivity of profit is influenced by hypothetical changes in interest rates during a period of one year based on interest bearing assets and liabilities with a variable interest rate.

Currency	Increase in b. p. Sep 30, 2021	Effect on profit Sep 30, 2021	Increase in b. p. Dec 31, 2020	Effect on profit Dec 31, 2020
		HRK '000		HRK '000
EUR	+5	-	+31	-
USD	+7	110	+16	343
Currency	Decrease in b. p. Sep 30, 2021	Effect on profit Sep 30, 2021	Decrease in b. p. Dec 31, 2020	Effect on profit Dec 31, 2020
		HRK '000		HRK '000
EUR	-5	- <sup>1</sup>	-31	-
USD	-7	(110)	-16	(343)

<sup>1</sup> There is no impact due to the application of zero floor

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.5. Market risk (continued)**

**23.5.2. Currency risk**

Total assets and total liabilities as at 30 September 2021 and 31 December 2020 in HRK and foreign currencies can be shown as follows:

Group	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
30 September 2021	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>						
Cash on hand and current accounts with banks	10,721	48,360	140	59,221	1,343,701	1,402,922
Deposits with other banks	-	6,535	-	6,535	-	6,535
Loans to financial institutions	-	3,661,327	-	3,661,327	3,851,603	7,512,930
Loans to other customers	220,441	9,984,995	-	10,205,436	5,868,045	16,073,481
Financial assets at fair value through profit or loss	15,520	85,478	-	100,998	123,002	224,000
Financial assets at fair value through other comprehensive income	-	803,718	-	803,718	2,050,611	2,854,329
Property, plant and equipment and intangible assets	-	-	-	-	44,591	44,591
Foreclosed assets	-	-	-	-	22,545	22,545
Other assets	-	2,721	-	2,721	37,518	40,239
<b>Total assets</b>	<b>246,682</b>	<b>14,593,134</b>	<b>140</b>	<b>14,839,956</b>	<b>13,341,616</b>	<b>28,181,572</b>
<b>Liabilities</b>						
Deposits from customers	15,766	753,573	45	769,384	367,849	1,137,233
Borrowings	188,213	14,238,254	-	14,426,467	1,504,013	15,930,480
Provisions for guarantees, commitments and other liabilities	22,632	8,755	1,088	32,475	89,512	121,987
Other liabilities	244	17,833	62	18,139	359,842	377,981
<b>Total liabilities</b>	<b>226,855</b>	<b>15,018,415</b>	<b>1,195</b>	<b>15,246,465</b>	<b>2,321,216</b>	<b>17,567,681</b>
<b>Currency gap</b>	<b>19,827</b>	<b>(425,281)</b>	<b>(1,055)</b>	<b>(406,509)</b>	<b>11,020,400</b>	<b>10,613,891</b>

\*Amounts linked to a one-way currency clause represent HRK 31,397 thousand.

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.5. Market risk (continued)**

**23.5.2. Currency risk (continued)**

Group	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
31 December 2020	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>						
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
<b>Total assets</b>	<b>272,848</b>	<b>15,682,314</b>	<b>134</b>	<b>15,955,296</b>	<b>12,751,246*</b>	<b>28,706,542</b>
<b>Liabilities</b>						
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
<b>Total liabilities</b>	<b>220,964</b>	<b>15,852,140</b>	<b>1,164</b>	<b>16,074,268</b>	<b>2,268,509</b>	<b>18,342,777</b>
<b>Currency gap</b>	<b>51,884</b>	<b>(169,826)</b>	<b>(1,030)</b>	<b>(118,972)</b>	<b>10,482,737</b>	<b>10,363,765</b>

\*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 period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.5. Market risk (continued)**

**23.5.2. Currency risk (continued)**

Total assets and total liabilities as at 30 September 2021 and 31 December 2020 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
<b>30 September 2021</b>						
<b>Assets</b>						
Cash on hand and current accounts with banks	10,721	48,284	140	59,145	1,335,083	1,394,228
Deposits with other banks	-	6,535	-	6,535	-	6,535
Loans to financial institutions	-	3,661,327	-	3,661,327	3,851,603	7,512,930
Loans to other customers	220,441	9,984,995	-	10,205,436	5,868,045	16,073,481
Financial assets at fair value through profit or loss	15,520	85,478	-	100,998	123,002	224,000
Financial assets at fair value through other comprehensive income	-	778,869	-	778,869	2,023,003	2,801,872
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	43,571	43,571
Foreclosed assets	-	-	-	-	22,545	22,545
Other assets	-	148	-	148	35,064	35,212
<b>Total assets</b>	<b>246,682</b>	<b>14,565,636</b>	<b>140</b>	<b>14,812,458</b>	<b>13,338,040*</b>	<b>28,150,498</b>
<b>Liabilities</b>						
Deposits from customers	15,766	753,573	45	769,384	367,849	1,137,233
Borrowings	188,213	14,238,254	-	14,426,467	1,504,013	15,930,480
Provisions for guarantees, commitments and other liabilities	22,632	8,755	1,088	32,475	89,290	121,765
Other liabilities	114	5,830	-	5,944	351,403	357,347
<b>Total liabilities</b>	<b>226,725</b>	<b>15,006,412</b>	<b>1,133</b>	<b>15,234,270</b>	<b>2,312,555</b>	<b>17,546,825</b>
<b>Currency gap</b>	<b>19,957</b>	<b>(440,776)</b>	<b>(993)</b>	<b>(421,812)</b>	<b>11,025,485</b>	<b>10,603,673</b>

\* Amounts linked to a one-way currency clause represent HRK 31,397 thousand.

Notes to the Financial Statements which include significant accounting policies  
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for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.5. Market risk (continued)**

**23.5.2. Currency risk (continued)**

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
31 December 2020	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>						
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
<b>Total assets</b>	<b>272,848</b>	<b>15,657,016</b>	<b>134</b>	<b>15,929,998</b>	<b>12,750,362*</b>	<b>28,680,360</b>
<b>Liabilities</b>						
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
<b>Total liabilities</b>	<b>220,807</b>	<b>15,843,063</b>	<b>1,106</b>	<b>16,064,976</b>	<b>2,260,760</b>	<b>18,325,736</b>
<b>Currency gap</b>	<b>52,041</b>	<b>(186,047)</b>	<b>(972)</b>	<b>(134,978)</b>	<b>10,489,602</b>	<b>10,354,624</b>

\* Amounts linked to a one-way currency clause represent HRK 38,816 thousand.



Notes to the Financial Statements which include significant accounting policies  
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for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.5. Market risk (continued)**

**23.5.2. 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 at 30 September 2021.

Volatility of the exchange rate EUR/HRK, determined using the standard deviation method on the changes of the foreign exchange rate EUR/HRK, equalled 1.48% in the previous 12 months (2020:1.72%).

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 Sep 30, 2021 %	Effect on profit Sep 30, 2021 HRK' 000	Change in currency rate Dec 31, 2020 %	Effect on profit Dec 31, 2020 HRK' 000
EUR	+1.48%	(3,834)	+1.72	(706)
EUR	-1.48	3,852	-1.72	738

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**24. Fair value of financial assets and financial liabilities**

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

Below is a breakdown of the financial assets at fair value based on IFRS 9 classification on 30 September 2021 and 31 December 2020.

Group	30 September 2021		
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
<b>Financial assets at fair value through profit or loss:</b>			
<b><i>Loans at FVPL:</i></b>			
Mezzanine loans	-	-	15,905
<b><i>Investments in investment funds:</i></b>			
Investments in investment funds at fair value through profit or loss	207,747	-	-
<b>Equity instruments:</b>			
<b><i>Unlisted equity instruments:</i></b>			
Investments in corporate shares	-	-	31
Depository receipt - DR	-	-	317
<b>Total financial assets at fair value through profit or loss</b>	<b>207,747</b>	<b>-</b>	<b>16,253</b>
<b>Financial assets at fair value through other comprehensive income:</b>			
<b>Debt instruments:</b>			
<b><i>Listed debt instruments:</i></b>			
Bonds of the Republic of Croatia	1,361,626	-	-
Corporate bonds	2,391	-	-
Treasury bills of the Ministry of Finance	1,449,912	-	-
Accrued interest	11,804	-	-
<b><i>Unlisted debt instruments:</i></b>			
Corporate bonds	-	-	530
Convertible bonds - CB	-	-	1,393
Accrued interest	-	-	259
<b>Total debt instruments</b>	<b>2,825,733</b>	<b>-</b>	<b>2,182</b>
<b><i>Unlisted equity instruments:</i></b>			
Investment in shares of foreign legal entities	-	45	-
Shares of foreign financial institutions – EIF	-	26,369	-
<b>Total equity instruments</b>	<b>-</b>	<b>26,414</b>	<b>-</b>
<b>Total financial assets at fair value through other comprehensive income</b>	<b>2,825,733</b>	<b>26,414</b>	<b>2,182</b>
<b>Derivative financial liabilities- negative fair value</b>			
FX swap	-	35	-
<b>Total liabilities</b>	<b>-</b>	<b>35</b>	<b>-</b>

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.

OTC FX swap is not quoted in an active market, and the price is calculated according to the generally accepted model by using the current market parameters derived from the spot currency exchange rate and the difference in interest rates of the agreed maturity for the foreign currency that is the subject matter of the contract.

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

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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

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

Group	31 December 2020		
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
<b>Financial assets at fair value through profit or loss:</b>			
<b><i>Loans at FVPL:</i></b>			
Mezzanine loans	-	-	2,658
<b><i>Investments in investment funds:</i></b>			
Investments in investment funds at fair value through profit or loss	188,289	-	-
<b>Equity instruments:</b>			
<b><i>Listed equity instruments:</i></b>			
Investments in corporate shares	-	-	-
<b><i>Unlisted equity instruments:</i></b>			
Investments in corporate shares	-	-	31
Depository receipt - DR	-	-	319
Investment in financial institutions shares	-	161	-
<b><i>Derivative financial assets-positive fair value</i></b>			
FX swap	-	298	-
<b>Total financial assets at fair value through profit or loss</b>	<b>188,289</b>	<b>459</b>	<b>3,008</b>
<b>Financial assets at fair value through other comprehensive income:</b>			
<b>Debt instruments:</b>			
<b><i>Listed debt instruments:</i></b>			
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	-	-
<b><i>Unlisted debt instruments:</i></b>			
Corporate bonds	-	-	564
Convertible bonds - CB	-	-	1,307
Accrued interest	-	-	391
<b>Total debt instruments</b>	<b>3,076,794</b>	<b>-</b>	<b>2,262</b>
<b><i>Unlisted equity instruments:</i></b>			
Investment in shares of foreign legal entities	-	43	-
Shares of foreign financial institutions – EIF	-	26,665	-
<b>Total equity instruments</b>	<b>-</b>	<b>26,708</b>	<b>-</b>
<b>Total financial assets at fair value through other comprehensive income</b>	<b>3,076,794</b>	<b>26,708</b>	<b>2,262</b>

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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

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

Bank	30 September 2021		
	Level 1	Level 2	Level 3
	HRK '000	HRK '000	HRK '000
<b>Financial assets at fair value through profit or loss:</b>			
<b>Loans at FVPL:</b>			
Mezzanine loans	-	-	15,905
<b>Investments in investment funds:</b>			
Investments in investment funds at fair value through profit or loss	207,747	-	-
<b>Equity instruments:</b>			
<b>Unlisted equity instruments:</b>			
Investments in companies' shares	-	-	31
Depository receipt - DR	-	-	317
<b>Total financial assets at fair value through profit or loss</b>	<b>207,747</b>	<b>-</b>	<b>16,253</b>
<b>Financial assets at fair value through other comprehensive income:</b>			
<b>Debt instruments:</b>			
<b>Listed debt instruments:</b>			
Bonds of the Republic of Croatia	1,311,881	-	-
Treasury bills of the Ministry of Finance	1,449,912	-	-
Accrued interest	11,483	-	-
<b>Unlisted debt instruments:</b>			
Corporate bonds	-	-	530
Convertible bonds - CB	-	-	1,393
Accrued interest	-	-	259
<b>Total debt instruments</b>	<b>2,773,276</b>	<b>-</b>	<b>2,182</b>
<b>Unlisted equity instruments:</b>			
Investment in shares of foreign legal entities – SWIFT	-	45	-
Shares of foreign financial institutions – EIF	-	26,369	-
<b>Total equity instruments</b>	<b>-</b>	<b>26,414</b>	<b>-</b>
<b>Total financial assets at fair value through other comprehensive income</b>	<b>2,773,276</b>	<b>26,414</b>	<b>2,182</b>
<b>Derivative financial liabilities- negative fair value</b>			
FX swap	-	35	-
<b>Total liabilities</b>	<b>-</b>	<b>35</b>	<b>-</b>

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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

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

Bank	31 December 2020		
	Level 1	Level 2	Level 3
	HRK '000	HRK '000	HRK '000
<b>Financial assets at fair value through profit or loss:</b>			
<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	-	-
<b>Equity instruments:</b>			
<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	-
<b>Total financial assets at fair value through profit or loss</b>	<b>188,289</b>	<b>459</b>	<b>3,008</b>
<b>Financial assets at fair value through other comprehensive income:</b>			
<b>Debt instruments:</b>			
<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
<b>Total debt instruments</b>	<b>3,024,356</b>	<b>-</b>	<b>2,262</b>
<i>Unlisted equity instruments:</i>			
Investment in shares of foreign legal entities – SWIFT	-	43	-
Shares of foreign financial institutions – EIF	-	26,665	-
<b>Total equity instruments</b>	<b>-</b>	<b>26,708</b>	<b>-</b>
<b>Total financial assets at fair value through other comprehensive income</b>	<b>3,024,356</b>	<b>26,708</b>	<b>2,262</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**24. Fair value of financial assets and financial liabilities (continued)**

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

**26.1.1. Level 3 - fair value**

**a) Mezzanine loans**

For the assessment of fair value of mezzanine loans, the method of discounting expected future cash flows is used.

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

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

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

On 30 September 2021, the market price of ordinary shares of the debtor that the Bank could subscribe amounted to HRK 861 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 385 thousand, which represents the fair value of the mezzanine loan on 30 September 2021.

In the reporting period, based on the Decision in the pre-bankruptcy proceedings, HBOR took over 50% of the debtor's claims as senior debt and 50% of claims as mezzanine debt. Mezzanine debt is stated in the amount of HRK 15,520 thousand.

**b) Corporate bonds that are allocated to Stage 3**

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

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

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

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**24. Fair value of financial assets and financial liabilities (continued)**

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

**26.1.1. Level 3 - fair value (continued)**

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

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

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

*(ii) Sensitivity analysis of corporate bond with the stated potential effect on profit/loss as at 30 September 2021, under the assumption of a change in discount rate (yield) of 2% and 10%*

Under the assumption that the market interest rates change by 2% compared with those in effect as at 30 September 2021, 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 12.37%, the bond price would be 35.53%, which would result in an increase in HBOR's generated profits of HRK 11.25 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 16.37%, the bond price would be 34.08%, which would result in a decrease in HBOR's generated profits of HRK 10.73 thousand.

The change in interest rates defined in the "Decision on the Management of Interest Rate Risk in the Bank Book", which is applied when calculating standard interest rate shock, is used as the basis for the change in the market interest rate of 2% compared with the market terms and conditions in effect as at 30 September 2021. "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 52.92 thousand.

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**24. Fair value of financial assets and financial liabilities (continued)**

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

**26.1.1. Level 3 - fair value (continued)**

**c) Adjustment of fair value of Level 3:**

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

Group and Bank	Sep 30, 2021 HRK '000	Sep 30, 2020 HRK '000
Balance as at 1 January	2,658	2,234
Increase/(decrease) in fair value through profit or loss	(2,274)	1.131
Other	15,521	-
<b>Balance as at 30 September</b>	<b>15,905</b>	<b>3,365</b>

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

Group and Bank	Sep 30, 2021 HRK '000	Sep 30, 2020 HRK '000
Balance as at 1 January	2,262	3,097
Decrease in fair value through other comprehensive income	(13)	(1.007)
Interest capitalization	-	91
Net foreign exchange	(29)	71
Accrued interest	(38)	35
<b>Balance as at 30 September</b>	<b>2,182</b>	<b>2,287</b>



Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

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**25. 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:

<b>Segment:</b>	<b>Business activities of the segment include:</b>
Banking activities	Financing reconstruction and development of the Croatian economy, financing of infrastructure, export promotion, support for the development of small and medium-sized companies, environmental protection, and export credit insurance of Croatian goods and services against non-market risks for and on behalf of the Republic of Croatia.
Insurance activities	Insurance of foreign and domestic short-term receivables of business entities relating to deliveries of goods and services.
Other	Preparation of analyses, credit risk assessment and providing information on creditworthiness.

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

25. Reporting by segments (continued)

	Banking activities HRK '000	Insurance activities HRK '000	Other activities HRK '000	Unallocated HRK '000	Total HRK '000
<b>Jan 1 – Sep 30, 2021</b>					
Net interest income	349,268	936	-	-	350,204
Net fee income	16,823	1,014	1,436	-	19,273
Net income/(expenses) from financial operations	(7,369)	(113)	-	-	(7,482)
Net premiums earned	-	5,661	-	-	5,661
Other income	20,828	13	189	(195)	20,835
<b>Income from operating activities</b>	<b>379,550</b>	<b>7,511</b>	<b>1,625</b>	<b>(195)</b>	<b>388,491</b>
Operating costs	(134,355)	(4,479)	(1,338)	195	(139,977)
Impairment loss and provisions	(4,346)	3	12	-	(4,331)
Expenses for insured cases	-	(1,073)	-	-	(1,073)
Net change in provisions	-	(360)	-	-	(360)
Other expenses	-	(279)	-	-	(279)
<b>Operating expenses</b>	<b>(138,701)</b>	<b>(6,188)</b>	<b>(1,326)</b>	<b>195</b>	<b>(146,020)</b>
<b>Profit before income tax</b>	<b>240,849</b>	<b>1,323</b>	<b>299</b>	<b>-</b>	<b>242,471</b>
Income tax	-	-	-	-	-
<b>Profit for the year</b>	<b>240,849</b>	<b>1,323</b>	<b>299</b>	<b>-</b>	<b>242,471</b>
<b>30 September 2021</b>					
Assets of segment	28,150,497	65,980	1,744	(36,649)	28,181,572
<b>Total assets</b>	<b>28,150,497</b>	<b>65,980</b>	<b>1,744</b>	<b>(36,649)</b>	<b>28,181,572</b>
Liabilities of segment	17,546,825	20,718	161	(23)	17,567,681
Total equity	10,603,672	7,733	1,312	1,174	10,613,891
<b>Total liabilities and total equity</b>	<b>28,150,497</b>	<b>28,451</b>	<b>1,473</b>	<b>1,151</b>	<b>28,181,572</b>

Intra-group transactions are presented under "Unallocated".

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

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

25. Reporting by segments (continued)

	Banking activities HRK '000	Insurance activities HRK '000	Other activities HRK '000	Unallocated HRK '000	Total HRK '000
<b>Jan 1 – Sep 30, 2020</b>					
Net interest income	274,892	834	-	-	275,726
Net fee income	15,374	771	1,414	-	17,559
Net income/(expenses) from financial operations	(4,464)	(26)	-	-	(4,490)
Net premiums earned	-	5,272	-	-	5,272
Other income	5,283	150	194	(202)	5,425
<b>Income from operating activities</b>	<b>291,085</b>	<b>7,001</b>	<b>1,608</b>	<b>(202)</b>	<b>299,492</b>
Operating costs	(105,880)	(4,216)	(1,231)	202	(111,125)
Impairment gain/loss and provisions	(129,915)	124	(69)	-	(129,860)
Expenses for insured cases	-	(176)	-	-	(176)
Net change in provisions	-	(133)	-	-	(133)
Other expenses	-	(274)	-	-	(274)
<b>Operating expenses</b>	<b>(235,795)</b>	<b>(4,675)</b>	<b>(1,300)</b>	<b>202</b>	<b>(241,568)</b>
<b>Profit before income tax</b>	<b>55,290</b>	<b>2,326</b>	<b>308</b>	<b>-</b>	<b>57,924</b>
Income tax	-	(228)	-	-	(228)
<b>Profit for the year</b>	<b>55,290</b>	<b>2,098</b>	<b>308</b>	<b>-</b>	<b>57,696</b>
<b>31 December 2020</b>					
Assets of segment	28,680,360	61,390	1,441	(36,649)	28,706,542
<b>Total assets</b>	<b>28,680,360</b>	<b>61,390</b>	<b>1,441</b>	<b>(36,649)</b>	<b>28,706,542</b>
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
<b>Total liabilities and total equity</b>	<b>28,680,360</b>	<b>23,871</b>	<b>1,161</b>	<b>1,150</b>	<b>28,706,542</b>

Intra-group transactions are presented under "Unallocated".

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January – 30 September 2021 (continued)

(All amounts are expressed in HRK thousand)

**26. Capital management**

The primary objectives of the Group's capital management are to ensure the presumptions of going concern and to respect regulatory and contracted demands imposed by creditors regarding a certain capital adequacy level.

The Group has identified own funds as a manageable capital category.

Regulatory capital has to be, at every moment, at least at the level of share capital or at the level that ensures that the capital adequacy ratio is at least 12% and that is sufficient for covering capital requirements regarding business risks.

Regulatory capital is comprised of core capital minus debit items.

The Group has determined measures for the implementation and monitoring of the capital management policy as follows:

- At the reporting date, own funds have to be at least at the level of founder's capital for the reporting period.
- The capital adequacy ratio at the reporting date has to be at the level prescribed for the banks in the Republic of Croatia as well as at the level stated within regular financial covenants determined in loan contracts and contracts with special financial institutions that HBOR has concluded as a borrower.

The Group calculates regulatory capital and capital requirements in accordance with Basel II requirements, and below is a breakdown of capital adequacy ratio as at 30 September 2021 and 31 December 2020.

	30 September 2021 HRK '000	Group 31 December 2020 HRK '000	30 September 2021 HRK '000	Bank 31 December 2020 HRK '000
<b>Total regulatory capital</b>	<b>10,348,769</b>	<b>10,076,599</b>	<b>10,347,590</b>	<b>10,074,668</b>
Credit risk weighted exposure amount	15,483,535	15,868,462	15,475,626	15,862,444
Capital requirements for operating risk	787,800	787,800	767,635	767,635
Capital requirements for currency risk	280,442	-	258,455	-
<b>Total capital requirements</b>	<b>16,551,777</b>	<b>16,656,262</b>	<b>16,501,716</b>	<b>16,630,079</b>
<b>Capital adequacy ratio</b>	<b>% 62.52</b>	<b>% 60.50</b>	<b>% 62.71</b>	<b>% 60.58</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
<b>Own funds needed for ensuring capital adequacy according to regulatory requirements</b>	<b>1,986,213</b>	<b>1,998,751</b>	<b>1,980,206</b>	<b>1,995,609</b>

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

(All amounts are expressed in HRK thousand)

	Sep 30, 2021 HRK '000	Sep 30, 2020 HRK '000
<b>Premium earned</b>		
Gross premium written	12,386	9,313
Premium impairment allowance originated and reserved on collection	(56)	(57)
Gross outward reinsurance premium	(5,668)	(4,219)
<b>Net premium written</b>	<b>6,662</b>	<b>5,037</b>
Changes in the gross unearned premium reserve	(1,928)	235
Changes in the gross unearned premium reserve, reinsurer's share	927	-
<b>Net premium earned</b>	<b>5,661</b>	<b>5,272</b>
Fee and commission income	2,450	2,185
Net investment income	820	749
Other operating income	7	142
<b>Net income</b>	<b>8,938</b>	<b>8,348</b>
Gross expense for returned premiums	(514)	(568)
Reinsurer's share	236	294
Gross reserve for returned premiums	(449)	(26)
Reinsurer's share	212	27
<b>Net expense and reserve for returned premiums</b>	<b>(515)</b>	<b>(273)</b>
Claims incurred	(2,077)	(185)
Claims incurred, reinsurer's share	1,004	9
Change in the claims provision	(274)	(313)
Change in the claims provision, reinsurer's share	151	179
<b>Net claims incurred</b>	<b>(1,196)</b>	<b>(310)</b>
Marketing and provision expenses	(248)	(378)
Administrative expenses	(5,359)	(4,857)
Other operating expenses	(1)	45
Net exchange differences other than those on financial instruments	3	59
<b>Profit before income tax</b>	<b>1,622</b>	<b>2,634</b>
Income tax	-	(228)
<b>Profit for the year</b>	<b>1,622</b>	<b>2,406</b>
<b>Other comprehensive income</b>		
<b>Items that are not transferred subsequently to profit or loss:</b>		
Deferred tax – adjustment for previous period	-	-
<b>Total items that are not transferred subsequently to profit or loss</b>	<b>-</b>	<b>-</b>
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Gains on revaluation of financial assets available for sale	673	1,387
Decrease in the fair value of financial assets available for sale	(1,336)	(1,942)
Transfer of realised gains on asset available for sale to profit or loss	-	(253)
Deferred tax	120	146
<b>Total items that may be reclassified subsequently to profit or loss:</b>	<b>(543)</b>	<b>(662)</b>
<b>Other comprehensive income after income tax</b>	<b>(543)</b>	<b>(662)</b>
<b>Total comprehensive income after income tax</b>	<b>1,079</b>	<b>1,744</b>
<b>Attributable to:</b>		
Equity holder of the parent	<b>1,079</b>	<b>1,744</b>

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 at

(All amounts are expressed in HRK thousand)

	Sep 30, 2021 HRK '000	Dec 31, 2020 HRK '000
<b>Assets</b>		
<b>Non-current assets</b>		
Property and equipment	576	594
Intangible assets	444	262
Held to maturity investments	-	-
Deferred tax	241	-
<b>Total non-current assets</b>	<b>1,261</b>	<b>856</b>
<b>Current assets</b>		
Investments available for sale	52,456	52,437
Investments at fair value through profit or loss	-	-
Receivables from insurance operations	4,043	2,497
Other receivables	746	562
Cash and cash equivalents	8,695	5,955
<b>Total current assets</b>	<b>65,940</b>	<b>61,451</b>
<b>Total assets</b>	<b>67,201</b>	<b>62,307</b>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Share capital	37,500	37,500
Retained earnings and reserves	3,941	1,749
Other reserves	3,282	3,825
Profit for the year	1,622	2,192
<b>Total equity</b>	<b>46,345</b>	<b>45,266</b>
<b>Technical provisions</b>		
Gross technical provisions	21,909	19,258
Technical provisions, reinsurer's share	(10,123)	(8,832)
	<b>11,786</b>	<b>10,426</b>
<b>Current liabilities</b>		
Liabilities from insurance operations	5,773	3,380
Other liabilities	3,297	3,235
<b>Total liabilities</b>	<b>9,070</b>	<b>6,615</b>
<b>Total equity and liabilities</b>	<b>67,201</b>	<b>62,307</b>

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

(All amounts are expressed in HRK thousand)

	Sep 30, 2021 HRK '000	Sep 30, 2020 HRK '000
<b>Operating activities</b>		
Profit before income tax	1,622	2,634
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>		
Depreciation	236	249
Impairment gain/loss and provisions	41	2
Income tax	-	-
Accrued interest	123	187
Write-offs of tangible and intangible assets and other adjustments	(3)	-
<i>Operating profit before working capital changes</i>	<i>2,019</i>	<i>3,072</i>
<b>Changes in operating assets and liabilities:</b>		
Net (gain)/loss on assets available for sale	-	279
Decrease of discount in assets available for sale and assets held to maturity	68	87
Net gain on financial assets at fair value through profit or loss	-	71
Premium receivables	(1,602)	1,972
Net decrease/(increase) in other assets	(240)	(6)
Net decrease of assets and liabilities from insurance operations	2,393	(1,578)
Net increase in technical provisions	1,361	(102)
Net increase in other liabilities	(18)	(239)
<b>Net cash provided/(used in) operating activities</b>	<b>3,981</b>	<b>3,556</b>
<b>Investment activities</b>		
Net sale of financial assets at fair value through profit or loss	-	9,747
Net purchase of assets available for sale	(2,994)	(3,044)
Net sale of assets available for sale	2,000	3,346
Collection of assets held to maturity when due	-	448
Net purchase of property, plant and equipment and intangible assets	(359)	(52)
<b>Net cash (used in)/provided investment activities</b>	<b>(1,353)</b>	<b>10,445</b>
<b>Effect of foreign currency to cash and cash equivalents</b>		
Net foreign exchange	116	(314)
<b>Net effect</b>	<b>116</b>	<b>(314)</b>
Other adjustments	-	(150)
Net increase in cash and cash equivalents	2,744	13,537
Balance as at 1 January	5,964	2,924
Net increase in cash	2,744	13,537
<b>Balance as at 30 September</b>	<b>8,708</b>	<b>16,461</b>

Appendix - Financial Performance of the HKO Group  
Statement of Changes in Equity  
for the period 1 January – 30 September

(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
<b>Balance as at 1 January 2020</b>	<b>37,500</b>	<b>2,501</b>	<b>4,363</b>	<b>(752)</b>	<b>43,612</b>	<b>43,612</b>
Profit for the period	-	-	-	2,406	2,406	2,406
Other comprehensive income	-	-	(662)	-	(662)	(662)
Total comprehensive income	-	-	(662)	2,406	1,744	1,744
Transfer of profit 2019 to retained earnings	-	(752)	-	752	-	-
<b>Balance as at 30 September 2020</b>	<b>37,500</b>	<b>1,749</b>	<b>3,701</b>	<b>2,406</b>	<b>45,356</b>	<b>45,356</b>
<b>Balance as at 1 January 2021</b>	<b>37,500</b>	<b>1,749</b>	<b>3,825</b>	<b>2,192</b>	<b>45,266</b>	<b>45,266</b>
Profit for the period	-	-	-	1,622	1,622	1,622
Other comprehensive income	-	-	(543)	-	(543)	(543)
Total comprehensive income	-	-	(543)	1,622	1,079	1,079
Transfer of profit 2020 to retained earnings	-	2,192	-	(2,192)	-	-
<b>Balance as at 30 September 2021</b>	<b>37,500</b>	<b>3,941</b>	<b>3,282</b>	<b>1,622</b>	<b>46,345</b>	<b>46,345</b>