



**ANNUAL REPORT
OF THE CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT GROUP
FOR 2021**

Zagreb, March 2022

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STATEMENT OF PERSONS RESPONSIBLE FOR THE PREPARATION OF THE ANNUAL REPORT

To the best of our knowledge the 2021 Annual Report contains a truthful development of events and business results as well as the position of the Croatian Bank for Reconstruction and Development and the Group and the description of the most significant risks and contingencies the Croatian Bank for Reconstruction and Development and the Group are exposed to.

President of the Management Board



Tamara Perko, MSc

Member of the Management Board



Hrvoje Čuvalo, MSc



Zagreb, 25 March 2022

MANAGEMENT REPORT FOR 2021

The Annual Report includes the summary of financial information, description of operations and audited Annual Financial Statements with the Independent auditor's report for the year ended 31 December 2021. Audited Financial Statements are shown for the Croatian Bank for Reconstruction and Development Group and the Croatian Bank for Reconstruction and Development.

Legal status

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

Establishment

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

HBOR Group

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

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

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

	2019	2020	2021
Total assets	26,446.49	28,680.36	28,249.99
Gross loans	26,571.11	27,197.29	26,329.34
Total equity	10,267.10	10,354.62	10,567.73
Total income	702.69	657.97	728.64
Total expense	(547.64)	(578.63)	(541.56)
Profit	155.05	79.34	187.08
Interest income	664.59	621.34	676.17
Interest expense	(311.56)	(244.19)	(184.61)
Net interest income	353.03	377.15	491.56

Credit rating as at 31 December 2021

BBB- by Standard & Poor's

Regional offices

Regional office for Dalmatia

Regional office for Istria

Regional office for Lika

Regional office for Primorje and Gorski kotar

Regional office for northwestern Croatia

Regional office for Slavonia and Baranja

Number of employees

On 31 December 2021, there were 375 employees in HBOR.

On 31 December 2021, there were 394 employees in HBOR Group.

Exchange rate

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

31 December 2021 EUR 1 = HRK 7.517174 USD 1 = HRK 6.643548

31 December 2020 EUR 1 = HRK 7.536898 USD 1 = HRK 6.139039

STATEMENT ON THE CODE OF CORPORATE GOVERNANCE APPLICATION

Croatian Bank for Reconstruction and Development (HBOR)

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

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

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

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

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

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

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

In the reporting period, the duties, responsibilities and powers of the members of the Management Board and the Supervisory Board were regulated by the Act on HBOR (Official Gazette of the Republic of Croatia, No. 138/06) and by the Act on Amendments to the Act on HBOR (Official Gazette of the Republic of Croatia, No. 25/13) and further elaborated in the By-laws of HBOR. The Management Board and the Supervisory Board successfully co-operate through open discussions; the timely submission of

thorough written reports to the Supervisory Board represents the basis for this co-operation. The Act on HBOR, the By-laws of HBOR and decisions made by the Supervisory Board determine the activities that HBOR may perform only with the prior consent of the Supervisory Board.

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

In 2021, the members of the Supervisory Board were as follows:

- Zdravko Marić, DSc, Minister of Finance and Deputy Prime Minister of the Republic of Croatia, President of the Supervisory Board,
- Tomislav Čorić, DSc, Minister of the Economy and Sustainable Development, Vice President of the Supervisory Board,
- Nikolina Brnjac, DSc, Minister of Tourism and Sport,
- 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, President of the Croatian Chamber of the Economy,
- Žarko Tušek, Member of the Croatian Parliament,
- Predrag Štromar, Member of the Croatian Parliament,
- Siniša Hajdaš Dončić, DSc, Member of the Croatian Parliament.

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

Members of the Management Board of HBOR in 2021:

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

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

In 2021, members of the **Audit Committee** of HBOR were:

- Prof.DSc. Lajoš Žager, Full Professor, Department of Accounting, Faculty of Economics and Business of the University of Zagreb, Chairman of the Audit Committee,
- Aurora Volarević, Member of the Management Board and Vice President of Corporate Affairs in Infobip Ltd, Deputy Chairman of the Audit Committee (until 4 May 2021),
- Predrag Štromar, Chairman of the Physical Planning and Construction Committee of the Croatian Parliament, member of the Audit Committee.

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

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

- Risk Management Division conducts the identification, assessment, measurement, supervision and control of all risks that HBOR is exposed or may be exposed to within the framework of its operations and reports on them to the bodies in charge,
- Internal Audit verifies the adequacy of the risk management procedures and the internal control system, including risk control function and compliance function, the application of internal policies and procedures, as well as activities related to the prevention of money laundering, and the subject matter of audit are also all other business processes that are determined based on risk assessment,
- Compliance function organizes, coordinates and directs the activities concerning compliance at the level of HBOR, advises on matters of compliance, controls measures taken to minimize compliance risk, incorporates information on compliance monitoring, identifies and assesses the risks of compliance and provides regular reports. The main tasks of the compliance function are to limit the non-compliance risk and its possible negative effects, ensure compliance of all internal documents and business processes with the relevant regulations and promote the principles of ethical business.

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

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

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

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

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

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

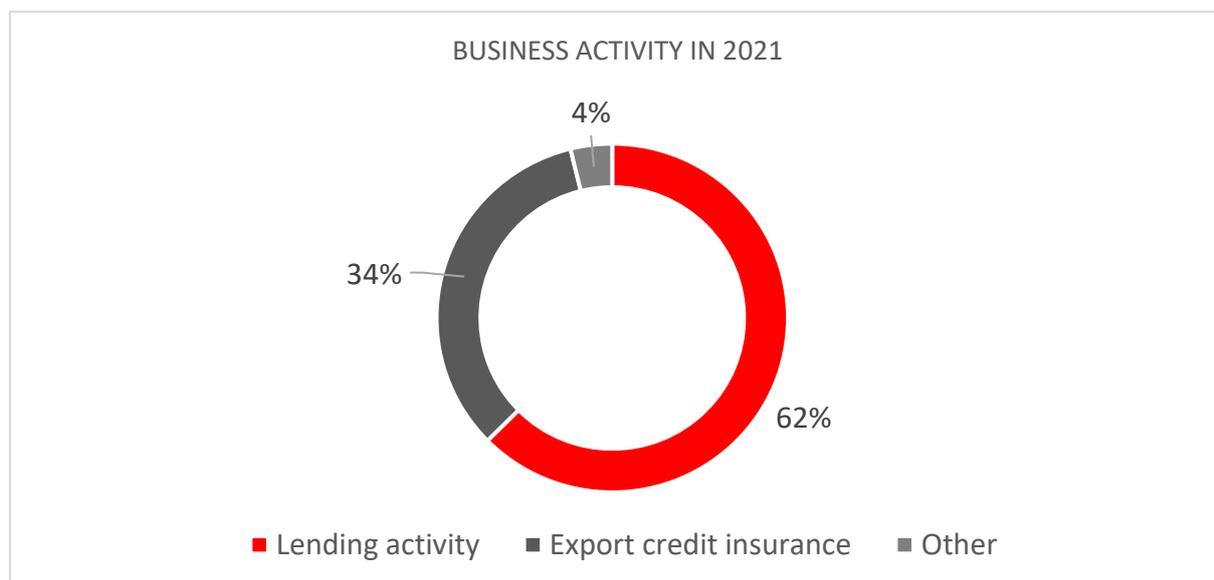
In its operations, HKO voluntarily applies the principles of the corporate governance code that have been prepared by the Croatian Financial Services Supervisory Agency (HANFA) and Zagrebačka burza d.d. (Zagreb Stock Exchange), to the extent adequate to the size and development status of the Company.

This Statement is considered to be part of the Annual Report of the HBOR Group for the period 1 January to 31 December 2021.

DESCRIPTION OF OPERATIONS OF HBOR GROUP IN 2021

OPERATIONS OF CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

During 2021, HBOR supported 1,797 projects through its activities with an amount of more than HRK 7.7 billion.



By the HBOR Strategy 2020 – 2024, the following strategic goals have been defined:

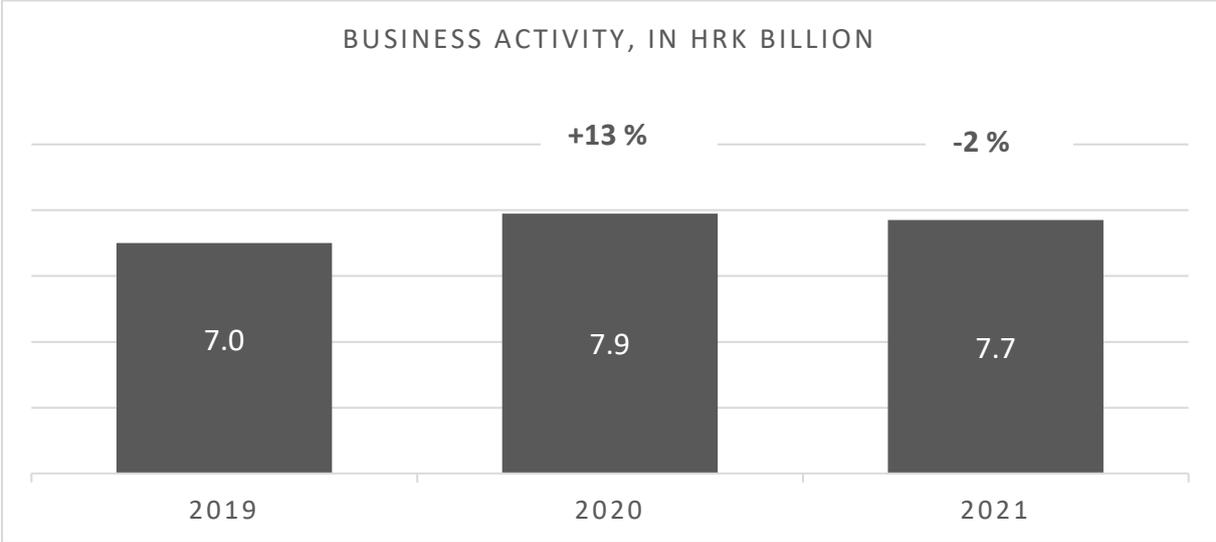
1. Promoting development of equity and quasi-equity market in the Republic of Croatia,
2. Promoting balanced and sustainable economic and social regional, rural and urban development of the Republic of Croatia,
3. Promoting the Croatian economy internationalisation and globalisation,
4. Promoting economic recovery from the COVID-19 crisis and competitiveness by emphasising RDI, digital transformation and Industry 4.0 ¹
5. Promoting climate and energy neutral economy through energy efficiency, renewable energy sources and environmental protection.

In 2021, HBOR's activities were in line with its strategic goals, and its operations were particularly marked by the continuation of activities related to the mitigation of negative consequences of the COVID-19 pandemic on the operations of Croatian business entities.

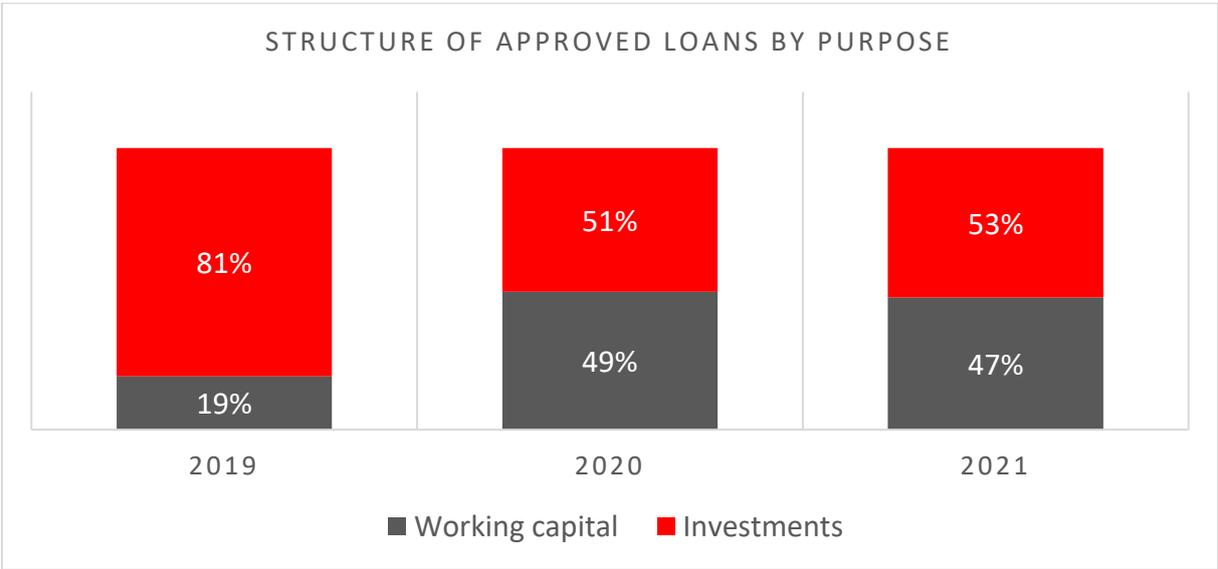
In order to preserve the liquidity of companies and jobs, already in March 2020, at the very beginning of the crisis, HBOR made it possible for entrepreneurs to use a moratorium and to reschedule their existing obligations. Also, new working capital loan programmes were introduced with an interest rate from 0 percent. In order to encourage banks to extend new loans to entrepreneurs, HBOR introduced new manners of securing loans and issuing of guarantees, through which it covers up to 100 percent of the risk of loan repayment.

¹ Given the circumstances caused by the COVID-19 pandemic, in 2021, the Strategy was amended in such a way that the strategic goal related to competitiveness promotion was extended to promoting the economic recovery from the COVID-19 crisis.

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



The major part of approvals related to lending activity: in the reporting year, 1,193 loans were approved totalling almost HRK 5 billion. In 2021, the trend of lower propensity of entrepreneurs for investments was continued, and the year was marked by the use of loans to maintain liquidity. However, in these circumstances, of the total number of loans approved, more than 50 percent were intended for investments. The approved investment loans are particularly important, because these investments are focused on the development of a particular area, increase in entrepreneurs' competitiveness, investments in new technologies and production, as well as new employment.



Most of HBOR's borrowers in 2021 were again small and medium-sized enterprises, to which 1,108 loans were approved, i.e. 93 percent of the total number of approved loans.

In 2021, Croatian exporters were backed by HBOR in more than 700 projects with the total amount of more than HRK 4 billion.

COVID-19 MEASURES

In addition to the possibility of using a moratorium and rescheduling, during 2020, within the framework of COVID-19 Measures, HBOR introduced new working capital loan programmes that are approved in cooperation either with commercial banks or directly at interest rates² from 0 percent on HBOR's sources and new manners of loan insurance, by which HBOR covers up to 100 percent of risk of loan repayment in order to encourage banks to extend loans to entrepreneurs. The implementation of the Measures was continued in 2021 as well.

MORATORIUM OF UP TO 16 MONTHS

At the end of March 2020, HBOR made it possible for all clients to whom a direct loan had been approved or a guarantee issued to use a moratorium until 30 June 2020. After the initially approved moratorium, an additional or new moratorium was made possible, which, for example, for clients active in the tourism industry, was applied until 30 June 2021.

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

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

Results - moratorium:

From the beginning of implementation of the COVID-19 Measures until the end of 2021, HBOR implemented more than 1,800 moratoriums, by which the principal in the amount of more than HRK 13.7 billion was put into grace period.

LOAN PROGRAMMES UNDER COVID-19 MEASURES – INTEREST RATES FROM 0 PERCENT ON HBOR'S SOURCES

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

WORKING CAPITAL COVID-19 MEASURE – Lending is implemented under the risk-sharing model with commercial banks or directly for large loan amounts. Loans are approved with a repayment period of up to 5 years, including the possibility of a grace period of up to 1 year, at an interest rate from 0 percent on HBOR's share in the loan for the first three years of loan repayment. During 2021, the programme was implemented through 15 banks, and directly for loan amounts of more than HRK 1.5

² The interest rates of HBOR mentioned in this document depend on the state aid and/or de minimis aid regulations as well as the price of available sources of funding.

million for entrepreneurs in tourism activities and those generating at least 10% of income from exports or indirect exports, and for loan amounts exceeding HRK 37 million for other entrepreneurs.

WORKING CAPITAL FOR ENTREPRENEURS IN WOOD PROCESSING AND FURNITURE PRODUCTION INDUSTRY

– Lending was implemented under the risk-sharing model with commercial banks. Loans were approved with a repayment period of up to 5 years, including the possibility of a grace period of up to 1 year, at an interest rate from 0 percent for HBOR's share in the loan for the entire loan repayment period. As one of security instruments, entrepreneurs could use HBOR's insurance policy, where the Ministry of Agriculture co-financed the costs of the insurance premium up to the amount of available *de minimis* aid. In 2021, the programme was implemented through 15 banks. The measure was actively implemented until 30 June 2021, when the contract with the Ministry of Agriculture expired.

WORKING CAPITAL THROUGH FRAMEWORK LOANS TO BANKS

– More than HRK 1.2 billion was made available to entrepreneurs for new working capital loans that banks, thanks to HBOR's sources, approve at an interest rate reduced by 0.60 percentage points. During 2021, these funds were made available to entrepreneurs through 8 commercial banks.

WORKING CAPITAL THROUGH FRAMEWORK LOANS TO BANKS WITH HAMAG-BICRO GUARANTEES

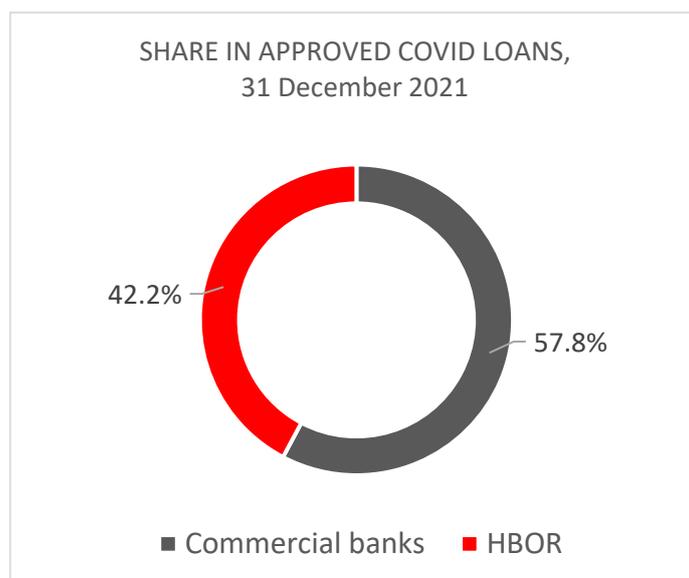
– Loans are approved under the risk-sharing model by using an individual ESIF guarantee of HAMAG-BICRO for working capital in the amount of at least 50 percent of the total loan amount. Owing to the use of the guarantee and HBOR's sources, the interest rate for entrepreneurs cannot exceed 2 percent. During 2021, these funds were made available to entrepreneurs through 5 commercial banks.

WORKING CAPITAL FOR RURAL DEVELOPMENT

– Loans are approved directly to eligible beneficiaries: farmers and entities doing business in the agricultural products processing industry as well as entities doing business in the forestry sector. Funds are approved without usual banking fees charged, at an interest rate of 0.5 percent, with only bills of exchange and debentures as collateral and the repayment period of up to 5 years. The programme was introduced by the reallocation of part of funds of the Investment Loans for Rural Development financial instrument and is fully financed from the Programme contribution of the Rural Development Programme of the Republic of Croatia for the period 2014-2020. The measure is available to beneficiaries until the end of the eligibility period, i.e. as long as there is a need due to the COVID-19 pandemic, and no later than 31 December 2023.

Results – approved loans:

From the beginning of implementation of the COVID-19 Measures until the end of 2021, under loan programmes within the framework of COVID-19 Measures, HBOR approved more than HRK 2.1 billion in loans. As at 31 December 2021, HBOR's exposure in terms of loans granted to business entities under the COVID-19 Measures amounted to HRK 1.9 billion. Since, according to the Croatian National Bank, the total exposure of commercial banks in terms of loans approved to business entities under COVID measures at the aggregate level as at 31 December 2021 amounted to HRK 2.6 billion, HBOR's exposure in terms of loans approved under the COVID-19 Measures made for 42.2 percent of the total exposure of banks to business entities under the COVID-19 Measures.



CREDIT INSURANCE PROGRAMMES – GUARANTEES AND INSURANCE OF LIQUIDITY LOANS

In order to encourage commercial banks to grant new liquidity loans to entrepreneurs, under the COVID-19 Measures, HBOR introduced programmes for the insurance of liquidity loans for exporters, adjusted the current insurance programmes to the needs of individual sectors, introduced guarantee programmes for the maritime, transport and transport infrastructure as well as for the tourism and sports sector that were implemented in cooperation with the competent ministries for large entrepreneurs. As an additional aid measure, at the end of 2020, an insurance premium subsidy programme was introduced, the implementation of which continued in 2021.

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

The aim of the programme is to encourage banks to approve more quickly and easily new funds in order to preserve the liquidity of exporters and indirect exporters from all sectors of the economy (including the tourism sector). Exporters are defined as entrepreneurs having generated at least 10 percent of operating income from exports in the past financial year, and indirect exporters as entrepreneurs having generated at least 20 percent of income from sales to exporters and their suppliers. Banks involved in cooperation under this programme include loans granted for exporters' liquidity according to the previously agreed criteria in the insured portfolio, for which HBOR assumes up to 90 percent of the repayment risk.

For the purpose of insuring loans that cannot be insured under the Programme for the Portfolio Insurance of Liquidity Loans for Exporters, the Programme for the Individual Insurance Policy of Liquidity Loans for Exporters was introduced.

PROGRAMME OF SUBSIDISING THE INSURANCE PREMIUM – COVID-19 MEASURE

Programme of Subsidising the Insurance Premium – COVID-19 Measure is one of the measures to help the Croatian economy due to the difficulties caused by the COVID-19 pandemic implemented pursuant to chapter 3.1. of the European Commission Communication. The programme was introduced at the end of 2020 and was further amended in 2021. By the Programme, subsidising of the entire or a part of the premium cost is provided to entrepreneurs, provided that in the period from 31 March 2020 until the submission of an application for subsidy they have not reduced the number of employees by more than 20 percent if the borrower is large entrepreneur, or more than 50 percent if the borrower is a small or medium entrepreneur, and that they have no outstanding liabilities based on public levies.

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

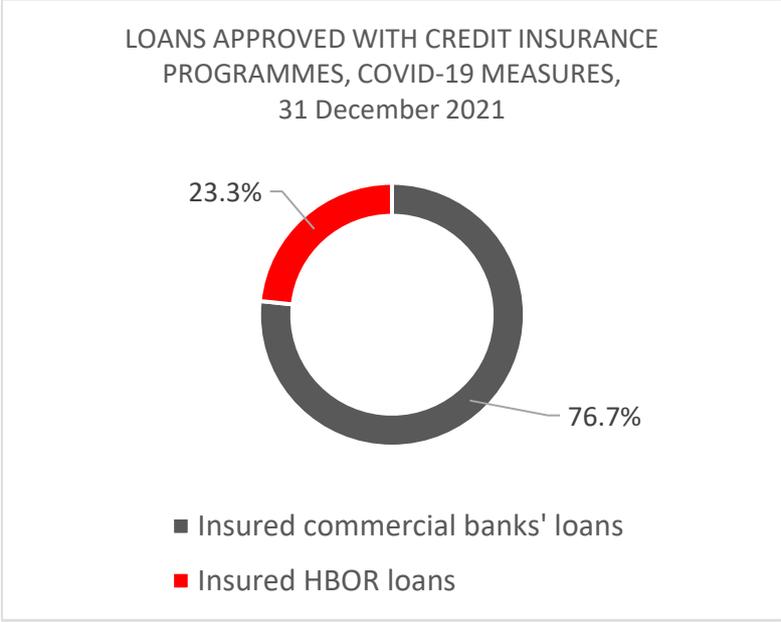
In cooperation with the Ministry of the Sea, Transport and Infrastructure, in 2021, HBOR continued to implement the Programme for the Award of State Aid to Support the Maritime, Transport and Transport Infrastructure and Related Sectors in the Current COVID-19 Outbreak for large entrepreneurs in the form of issuing state guarantees, introduced in 2020. The Programme was introduced to provide easier access to finance to entrepreneurs from the maritime, transport and transport infrastructure sector, thus ensuring the sustainability of operations and mitigation of effects of the crisis caused by the COVID-19 pandemic. The guarantees cover up to 90 percent of the underlying loan principal of new liquidity loans.

PROGRAMME FOR THE AWARD OF STATE AID TO SUPPORT THE TOURISM AND SPORTS SECTOR IN THE CURRENT COVID-19 OUTBREAK

In cooperation with the Ministry of Tourism and Sports, in February 2021, HBOR introduced a programme of issuing state guarantees for new liquidity loans to large entrepreneurs with coverage of up to 100 percent of the loan principal amount. The Programme was implemented until 31 December 2021 with the aim of providing entrepreneurs in the tourism and sports sector with easier access to finance, thus ensuring the sustainability of operations and mitigating the consequences of the crisis caused by the COVID-19 pandemic.

Results – guarantees and credit insurance:

Through the mentioned programmes of insurance and issuing of guarantees, loans approved both by HBOR and commercial banks can be insured. From the beginning of implementation of the COVID-19 Measures until the end of 2021, with the help of HBOR’s insurance and guarantee programmes under the COVID-19 Measures, more than HRK 3 billion in liquidity loans were provided to entrepreneurs. Almost HRK 2.3 billion of the approved amount of insurance related to loans approved to entrepreneurs by commercial banks.

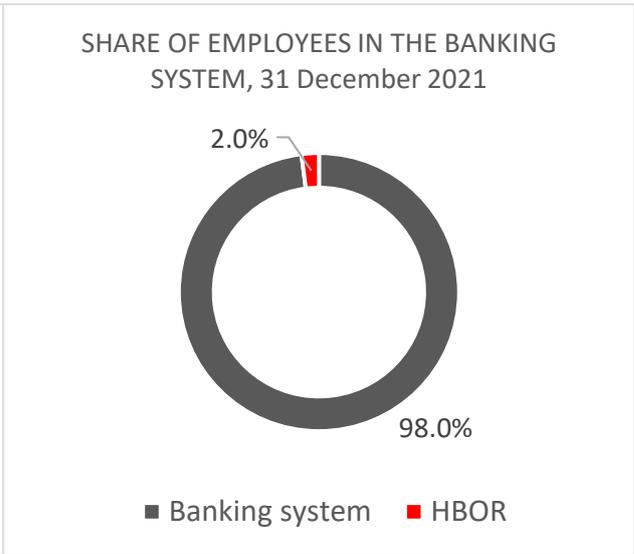
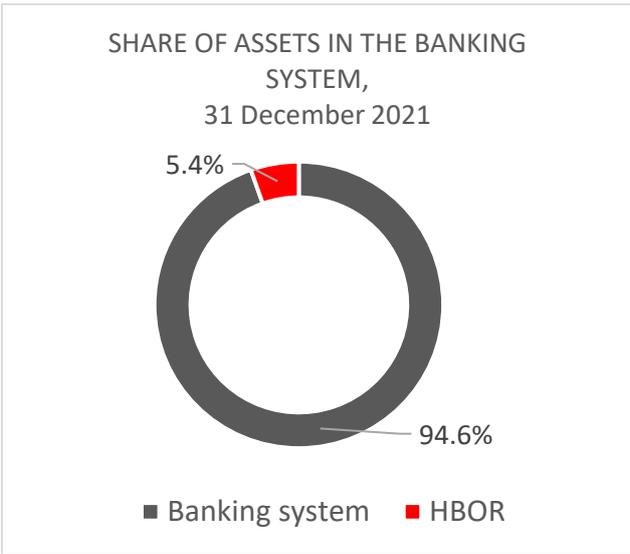
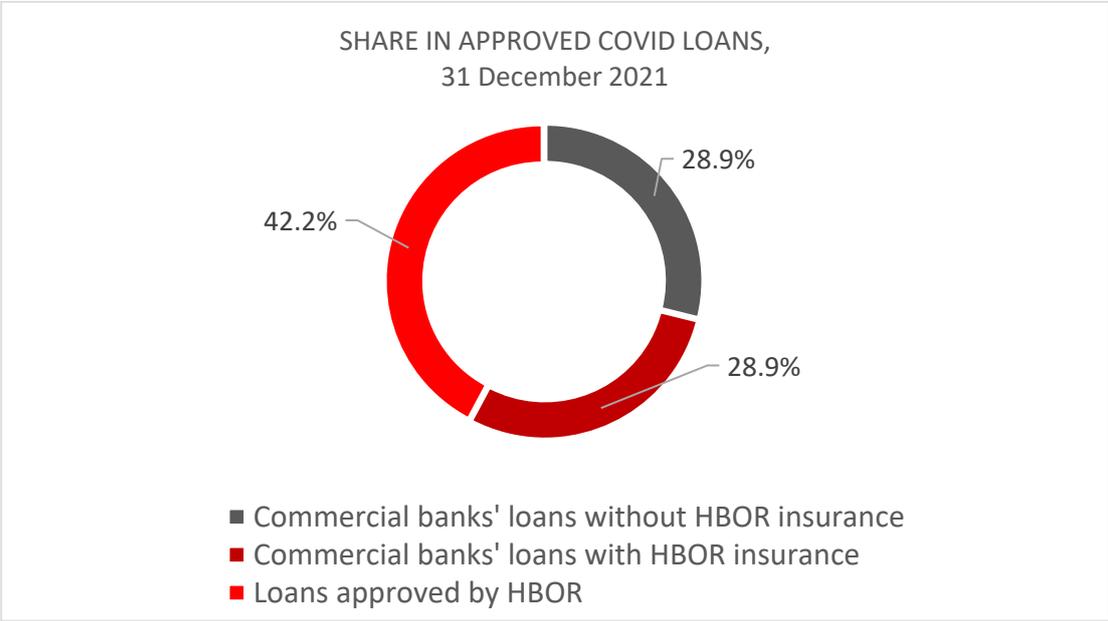


RESULTS OF HBOR'S COVID-19 MEASURES IN TOTAL – MORE THAN 70 PERCENT OF ALL LOANS APPROVED WITH HBOR'S MEASURES:

As at 31 December 2021, HBOR's exposure in terms of loans approved under the COVID-19 Measures amounted to HRK 1.9 billion, and HBOR's exposure in terms of insured loans and loans approved to entrepreneurs by commercial banks under COVID measures with HBOR's insurance amounted to HRK 1.3 billion.

Since of the total exposure of commercial banks as at 31 December 2021 in the amount of HRK 2.6 billion, HRK 1.3 billion relates to loans approved by commercial banks under HBOR's insurance programmes, more than 70 percent of all loans approved to entrepreneurs under the COVID-19 Measures were supported by HBOR measures.

This share is particularly pronounced if we take into account that HBOR employs 2 percent of the total number of employees in the Croatian banking system, in which HBOR's assets account for 5.4 percent of total assets.



SPECIAL BENEFITS INTRODUCED

WORKING CAPITAL LOAN PROGRAMME – REDUCED INTEREST RATES FOR EXPORTERS

In order to provide support to exporters through more favourable loan terms and conditions, primarily current operations and financing the settlement of short-term liabilities, in mid-2021, HBOR introduced new benefits under the loan programme “Working Capital”.

Exporters, defined under this programme as business entities that generated at least 10 percent of operating income from exports in the last year for which the financial statements are available, can finance their working capital at an interest rate of 0.8 percent and up to 3-year repayment period with no loan application processing fee and no commitment fee. Direct lending to exporters is possible for amounts of HRK 10 million or more, whereas, for lower-amount loans, exporters can apply for a loan at the same terms and conditions through 11 commercial banks.

For other entities, the current terms and conditions of this loan programme apply – lending at an interest rate of 2 percent p.a. and a repayment period of up to 1 year, or 3.5 percent and up to 6-year repayment period. Loans are approved through commercial banks, and loan applications in the amounts exceeding HRK 37 million can be submitted directly to HBOR.

SPECIAL BENEFITS FOR PUBLIC SECTOR INVESTMENTS – REDUCED INTEREST RATES FOR INVESTMENTS AND CO-FINANCING OF PROJECTS FINANCED OUT OF THE EU FUNDS

In order to promote investments by local and regional government units, institutions and agencies in their majority ownership as well as to promote the absorption of available EU funds, in mid-2021, HBOR lowered interest rates under the loan programmes “Public Sector Investment” and “EU Projects”.

Through the introduced changes under the „Public Sector Investment“ programme, HBOR extends direct loans to units of local and regional government - LRGUs, institutions and agencies majority-owned by them in supported areas at an annual interest rate of 1.1 percent, and those in other areas at an interest rate of 1.2 percent instead of the previous 1.75 and 2 percent, respectively.

Under the „EU Projects“ programme, the interest rate for direct lending for projects implemented by LRGUs, institutions and agencies majority-owned by them has been reduced to 1.2 percent from the previous 1.7 percent, and to 1.9 percent for loans with repayment period longer than 10 years.

Under both programmes for LRGUs, institutions and agencies in their ownership, the application processing fee has been reduced from 0.5 percent to 0.2 percent, and no commitment fee is charged.

LOWER INTEREST RATES FOR ENTREPRENEURS INVESTING IN THE EARTHQUAKE-AFFECTED AREA

Following the earthquakes that hit certain Croatian areas at the end of 2020, HBOR introduced, in early 2021, special benefits under the loan programmes Private Sector Investment, Youth, Female and Start-Up Entrepreneurship, Public Sector Investment and Working Capital, which enabled more favourable lending terms and conditions for entities investing in Sisak-Moslavina County in order to accelerate the reconstruction of destroyed and damaged facilities and equipment, the establishment of regular operations and the promotion of economic development in this area. Loans for investments in this area can be approved at an interest rate of up to 1 percent (with the possibility of reducing interest rates to a level of 0 percent), and loans for working capital are approved at an interest rate of up to 0.5 percent. Fees for loan application processing and changing the loan terms and conditions are not charged. Direct loans for financing working capital in the amount of more than EUR 100 thousand are available, whereas collateral requirements have been reduced.

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

INTEREST RATE SUBSIDY IN INDIVIDUAL COUNTIES, MUNICIPALITIES AND CITIES

In 2021, HBOR continued to contribute to the achievement of balanced regional development through cooperation with individual counties, municipalities and cities. Pursuant to business cooperation agreements concluded between HBOR and counties, municipalities and cities, entrepreneurs can count on interest rate subsidies, on HBOR's loans, awarded by a county, municipality or city. In certain areas, the agreements introduced a possibility of lending to entrepreneurs at an interest rate from 0 percent. During 2021, such agreements were in effect with respect to 41 units of local and regional government - LRGUs.

CO-OPERATION WITH HAMAG-BICRO

In 2021, business cooperation with HAMAG-BICRO was continued under guarantee programmes, and two agreements on cooperation under guarantee programmes were concluded:

- Programme for state aid award to the tourism and sports sector in the current COVID-19 outbreak for micro, small and medium-sized enterprises operating in the sectors defined by the Programme. HAMAG implements the Programme for and on behalf of the Ministry of Tourism and Sports.
- Programme for state aid award to the maritime, transport, transport infrastructure and related activities in the current COVID-19 outbreak for new working capital loans. HAMAG implements the Programme for and on behalf of the Ministry of Maritime Affairs, Transport and Infrastructure.

EU PROGRAMMES AND INITIATIVES

Following the activities started in 2020, which were primarily aimed at encouraging the recovery of the Croatian economy due to the crisis caused by the COVID-19 pandemic, in 2021, HBOR continued to proactively monitor the EU initiatives in the EU funds segment to ensure available financial mechanisms and adjust the current products to meet the needs of the market. The implementation of financial instruments for the public and private sectors continued.

Much attention was paid to the development of the National Recovery and Resilience Plan (NRRP) and to negotiations on the Multiannual Financial Framework 2021-2027, with special emphasis on negotiations in the part relating to the Cohesion policy.

In addition, in response to the crisis caused by the COVID-19 pandemic, the European Investment Bank has launched a series of measures, and one of them is the establishment of the Pan-European Guarantee Fund (EGF). The Republic of Croatia expressed interest in joining the EGF and concluded a Contribution Agreement with the EIB. Further to this, in 2021, HBOR concluded two guarantee agreements with the EIB Group.

FINANCIAL INSTRUMENTS

In 2021, HBOR continued to implement the current Financial instruments intended for the private sector: “ESIF Growth and Expansion Loans” and “Working Capital for Rural Development” and for the public sector: “ESIF Loans for Energy Efficiency in Public Sector Buildings” and “ESIF Loans for Public Lighting”. As the crisis caused by the pandemic significantly affected investment decisions of entrepreneurs in all sectors, including the agricultural sector, the Ministry of Agriculture as the Managing Authority of the Rural Development Programme, decided to finish the implementation of the financial instrument Investment Loans for Rural Development and to reallocate the remaining funds under this instrument to the financial instrument Working Capital for Rural Development, by which the total allocation for this financial instrument amounts to HRK 257.0 million. At the end of 2021, in cooperation with the Ministry of Regional Development and EU Funds and the Ministry of the Economy and Sustainable Development, an additional amount of HRK 175.2 million was provided for the implementation of financial instrument „ESIF Loans for Public Lighting“. With this increase, more than HRK 327 million of very favourable funds for investing in public lighting have been made available to the public sector. In other words, due to high demand and interest, the initially provided amount of HRK 152 million was fully used in a very short period of time.

NATIONAL RECOVERY AND RESILIENCE PLAN

In cooperation with competent ministries and bodies of the Republic of Croatia, in 2021, HBOR was an active participant in the development of the National Recovery and Resilience Plan (from the Recovery and Resilience Facility, RRF).

Promoting competitiveness and internationalisation, balanced regional development and a sustainable and energy-neutral economy, as well as the development of the private equity market are defined as key areas in HBOR’s 2020 – 2024 Business Strategy. Within the framework of the EU funds from the RRF, HBOR will implement financial instruments to promote exactly these areas. Therefore, favourable financing of new private and public sector investments will be provided. The investments will be aimed at strengthening the competitiveness and resilience of the economy, but also the transition to a green and digital economy, as the basis for competitiveness of business entities in the

future. Through these funds, HBOR will, in addition to favourable loans, enable the use of guarantees, and part of the funds will be directed to the development of new private equity funds.

For this purpose, under the NRRP, HBOR develops several financial instruments with a total value of HRK 1.925 billion. The start of implementation is scheduled to begin in the first half of 2022, and end in 2026, and financial instruments include the following:

Direct loans

For entrepreneurs and sectors that already have difficult access to finance and belong to the group of the most risky market segments (start-ups, young entrepreneurs, women entrepreneurs and investments in less developed areas as well as research and development) HBOR will approve direct loans in the amount of EUR 100 thousand and more.

Interest rate subsidy for the private and the public sectors

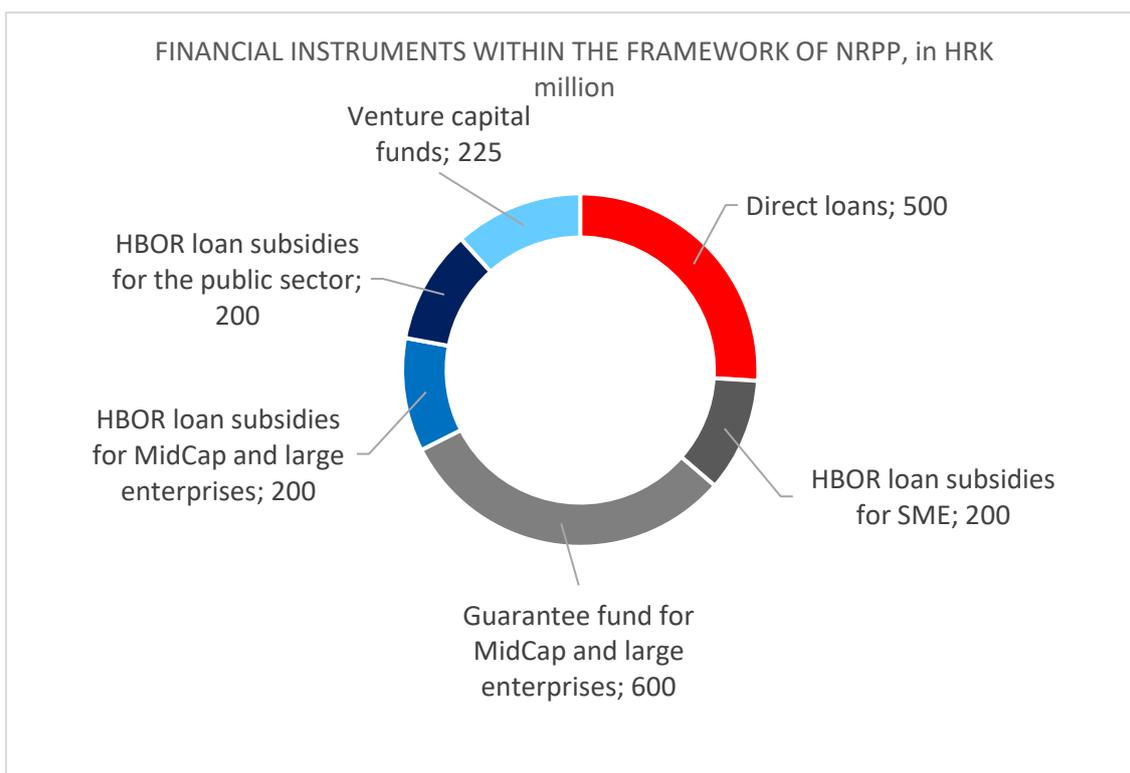
For small and medium-sized enterprises, but also large companies in the stage of growth and development as well as investment in new technologies and capacities (including the growing need to invest in "green" technologies) interest rate subsidy models are being developed to reduce the costs of financing as a precondition for increasing the level of investments in the domestic economy. Interest rate subsidies are also provided for public entities for investments in new investment projects that should contribute to the improvement of public sector services as one of the preconditions for increasing the quality of citizens' life and business of the economy sector.

Guarantee schemes for mid-cap companies and large companies

The development of a new guarantee instrument is also envisaged within the framework of the NRRP. Namely, in the Republic of Croatia, there have been for many years various guarantee schemes for investment support to micro, small and medium enterprises, from which mid-cap companies (from 250 to 3,000 employees) and large companies were excluded. Recognising the fact that a large number of domestic mid-cap companies and large companies often face problems with access to finance, it was planned under the NRRP to establish a new model of guarantees that would be issued to banks and other financial institutions for investments of mid-cap companies and large companies. The aim of the guarantee scheme is to reduce the risks of new investments and to encourage capital investments in the Croatian economy.

Promoting the development of new venture capital funds

New generations of entrepreneurs are more inclined to alternative sources of financing, because traditional sources cannot always adequately respond to the financial needs of fast-growing, but high-risk companies. For this reason, within the NRPP, funds are provided for further strengthening of small and medium-sized enterprises through investments in equity and quasi-equity capital, all with the aim of continuing the development of their business ideas in the Republic of Croatia.



„Do no significant harm“ principle

A novelty that is very important to mention is also related to the project evaluation criteria. Within the framework of the NRRP, one of the basic requirements of the EU was to harmonise all investments financed from the NRRP with the “do no significant harm” principle (DNSH). This principle refers to the requirement that no investment financed should have significant negative impacts on climate, environment, natural ecosystem, water and other EU Green deal objectives. It is therefore important that private and public sector projects are prepared in accordance with the requirements of DNSH and the EU taxonomy.

GUARANTEES UNDER PAN-EUROPEAN GUARANTEE FUND (EGF) – GRANTING LOANS ON FAVOURABLE TERMS AND CONDITIONS TO MITIGATE THE CONSEQUENCES OF THE COVID-19 PANDEMIC

The Pan-European Guarantee Fund was set up by the EIB Group in 2020 to accelerate the recovery of the European economy following the COVID-19 pandemic, in order to preserve jobs and provide liquidity. Within the framework of the Pan-European Guarantee Fund, HBOR entered into two guarantee agreements with the members of the EIB Group:

1. EIF GUARANTEES for the financing of small and medium enterprises and mid-caps (up to 499 employees)

By conclusion of an agreement with the European Investment Fund (EIF), which is part of the EIB Group, HBOR was enabled to use guarantees for the loan portfolio granted to small and medium enterprises and mid-caps in the total amount of up to EUR 50 million.

These guarantees are used for directly approved loans under existing loan programmes in order to obtain more favourable terms and conditions: loan approval at interest rates reduced by 0.403 percentage points compared to regular or lower requirements for collateral, or loan approval with bills of exchange and promissory notes only. These benefits can be used for working capital and investment loans.

2. EIB GUARANTEES for the financing of mid-caps and large companies

By conclusion of an agreement with the EIB, HBOR was enabled to use guarantees worth a total of EUR 50 million for loans granted to mid-caps and large companies.

These guarantees allow lending to mid-caps and large companies with lower requirements for collateral. They can be used when approving direct loans for working capital, but also investments of mid-caps under existing HBOR's programmes.

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

In order to preserve and protect natural capital, HBOR and the EIB entered into the Natural Capital Financing Facility, by means of which the EIB approved a loan of EUR 15 million to HBOR for the purpose of financing the conservation and sustainable use of biodiversity through green entrepreneurship and climate change adaptation by using natural solutions.

The implementation started in 2020 and continued in 2021 at favourable terms and conditions to borrowers whose projects fitted into one of the following basic components of the NCF:

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

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

In addition to funding, under the NCF, entrepreneurs and public sector entities are provided with free technical assistance in the form of advisory services – establishment whether the NCF criteria are met, assistance in identifying co-finance, steps for the preparation of loan application, technical advice, assistance relating to marketing strategy, reporting on project status and achievements, etc.

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

„Advisory Services for the Public Sector“ project is implemented with the European Union funding through the European Investment Advisory Hub (EIAH) under the Agreement on financing the development and implementation of advisory services for investments concluded between the EIB and HBOR at the beginning of 2021.

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

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

The agreed Project period is until 30 June 2022.

The Project is implemented in cooperation with two groups of external consultants (Consultants 1 and Consultants 2). Consultants 1 provided consultancy services to HBOR during the term of the contract on consultancy services (May - December 2021) in order for HBOR to develop the most appropriate model of providing technical assistance and to recommend a future model of providing technical assistance to HBOR. They are also engaged in organising a promotional campaign to raise awareness of the available advisory support of HBOR. As part of the promotional campaign in mid-2021, a Round table was held on “The role and opportunities of HBOR in promoting the development of public sector projects to contribute to the development of LRGUs”, and at the end of 2021, a conference called „How to (better) prepare public sector projects for funding“ and during October and November 2021, four workshops on structuring public sector projects at the local level.

During 2022, the second phase of the Project will follow, in which Consultants will provide advisory services and technical assistance to final beneficiaries of the Project – the public sector with special emphasis on LRGUs in the preparation of project documentation and the documentation supporting the application for project funding. In accordance with the Financing Agreement, within this goal, it is necessary to assist in the development and financing of at least 7 investment projects of LRGUs, of which at least 4 projects in less developed areas of the Republic of Croatia.

HBOR'S SUSTAINABLE FINANCING PROJECT – SHIFT IN HBOR'S ACTIVITIES TOWARDS SUSTAINABLE FINANCING AND GREEN TRANSITION

In 2021, HBOR began adapting to the requirements of the Sustainability and Sustainable Financing Regulation and focused on adopting practical approaches and methodologies to support green transition and adopt sustainable financing through a project entitled: Shift in HBOR's Activities Towards Sustainable Financing and Green Transition.

The project activities envisage the development of a set of policies, procedures, tools and metrics in the field of sustainable financing, all with the aim of strengthening HBOR's capacity to assess

environmental, climate and social risks and opportunities arising from HBOR's business activities, as well as the management of HBOR's exposure to these risks.

These HBOR's project activities are supported by the European Commission under the DG REFORM Technical Assistance Instrument (TSI2021), designed to implement administrative and structural reforms of the member states. At the same time, the project is included in the basis of the reform measure described in C.1.1.1. R4 of the Croatian National Recovery and Resilience Plan. The project officially started in September 2021, and the expected duration of the project is 18 months or until April 2023.

DEVELOPMENT OF VENTURE CAPITAL AND PRIVATE EQUITY MARKET

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

In other words, Croatia, as the youngest European Union member country, has a poorly developed venture capital and private equity market compared to other members. Due to the insufficient number of qualified investors focused on investments in venture capital and private equity funds active in the Republic of Croatia, the role of HBOR as an investor is of special importance.

In the past period, HBOR has launched a number of initiatives to develop venture capital and private equity markets in order to provide adequate resources to help the growth of entrepreneurial activities.

Through venture capital fund Fil Rouge Capital (FRC2 CROATIA PARTNERS SCSP), established in 2019 with HBOR's support, more than 100 investments in start-ups were made. During 2021, two funds established under the CROGIP programme (Croatian Growth Investment Programme) made their first investments in companies in the Republic of Croatia, and preconditions were created for the establishment of two more funds, one of which is intended to connect the science and the economy.

FRC2 CROATIA PARTNERS SCSP (ESIF VENTURE CAPITAL FUND)

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

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

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

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

The FRC2 Fund consists of two components:

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

From its establishment in June 2019 until the end of 2021, the FRC2 Fund reviewed more than 2,000 investment opportunities, 5 accelerator programmes have been completed and an amount of almost EUR 22 million has been put in more than 140 investments in 113 start-up companies.

CROGIP

Within the framework of the EIF-NPI Equity Platform, in January 2019, the EIF and HBOR signed the agreement, by which the CROGIP was launched. The CROGIP initiative promotes investments in small and medium-sized companies as well as mid-cap companies in the amount that may exceed EUR 240 million.

The EIF and HBOR jointly invest (each committing EUR 50 million) into

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

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

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

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

In accordance with the terms of the CROGIP initiative and its internal procedures, the EIF has selected three funds in which the funds of the CROGIP initiative will be invested: the Adriatic Structured Equity Fund, the Prosperus Growth Fund and the Croatian Mezzanine Debt Fund.

The Adriatic Structured Equity Fund and the Prosperus Growth Fund started operating at the end of 2020 and performed their first investments in Croatian companies in 2021. The Croatian Mezzanine Debt Fund created preconditions for the establishment of the fund in 2021 and will start operating in 2022.

Technology transfer fund

Funds available for investment under the CROGIP initiative were increased from EUR 80 million to EUR 100 million in July 2021 through the signing of an agreement between the EIF and HBOR. This enabled the establishment of the first regional platform for the launching of a fund to finance the commercialisation of innovative technological and scientific solutions of Croatian and Slovenian universities, research institutes and centres. Besides the EIF, SID Bank d.d. (Slovenian Development Bank) is HBOR's partner in this project. The future technology transfer fund of a minimum size of EUR 40 million will have to ensure, among other conditions, that at least EUR 15 million is invested in projects or companies being developed at universities or research institutes and centres in the Republic of Croatia. In 2021, the EIF issued a public invitation for the expression of interest with an objective of establishing a technology transfer fund that will invest in projects or companies from Croatian and Slovenian universities or research institutes and centres. From among the received expressions of interest, the EIF will select one team that will establish a technology transfer fund for the territory of the Republic of Croatia and the Republic of Slovenia during 2022.

THREE SEAS INITIATIVE INVESTMENT FUND

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

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

At the end of 2020, the Government of the Republic of Croatia made a decision to invest in the Fund with the purpose of encouraging the realisation of joint projects in the area covered by the Initiative. By this Decision, HBOR is authorised to make an investment in the Fund in its own name and for the account of the Government of the Republic of Croatia in an amount of up to EUR 20 million, increased by fees and costs of joining and participating in the Fund. HBOR joined the Fund in the first quarter of 2021. As at 31 December 2021, the size of the Fund equalled EUR 923 million.

HBOR does not make decisions on the selection of the Fund's investments; the projects are selected by investment advisor and the decision is made by the fund manager at the proposal of the independent investment committee.

EIF-NPI EQUITY PLATFORM

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

STRENGTHENING OF INTERNAL CAPACITIES

In 2021, HBOR concluded an agreement with the European Investment Bank on the basis of which the European Investment Advisory Hub (EIAH) would provide advisory services to HBOR in order to strengthen HBOR's internal capacities for establishing and monitoring investments in private equity funds. One of the activities under the agreement, which began in 2021, is the preparation of a market gap analysis with respect to private equity financing in the Republic of Croatia. The analysis will show the needs and opportunities in the market, including the identification of regulatory and administrative barriers.

EXPORT CREDIT INSURANCE

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

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

During 2021, HBOR insured a turnover of HRK 2.63 billion, an increase of 25 percent compared to 2020, which is largely a result of the strong use of insurance programmes launched for the purpose of providing support to the economy during the crisis caused by the COVID-19 pandemic.

At the beginning of 2021, a new price list for insuring short-term export receivables was adopted, which enabled exporters to contract insurance policies at lower premium rates compared to the previous period. At the same time, HBOR was enabled to adjust the contracted premium rates for exporters concluding insurance policies with HBOR for several foreign buyers.

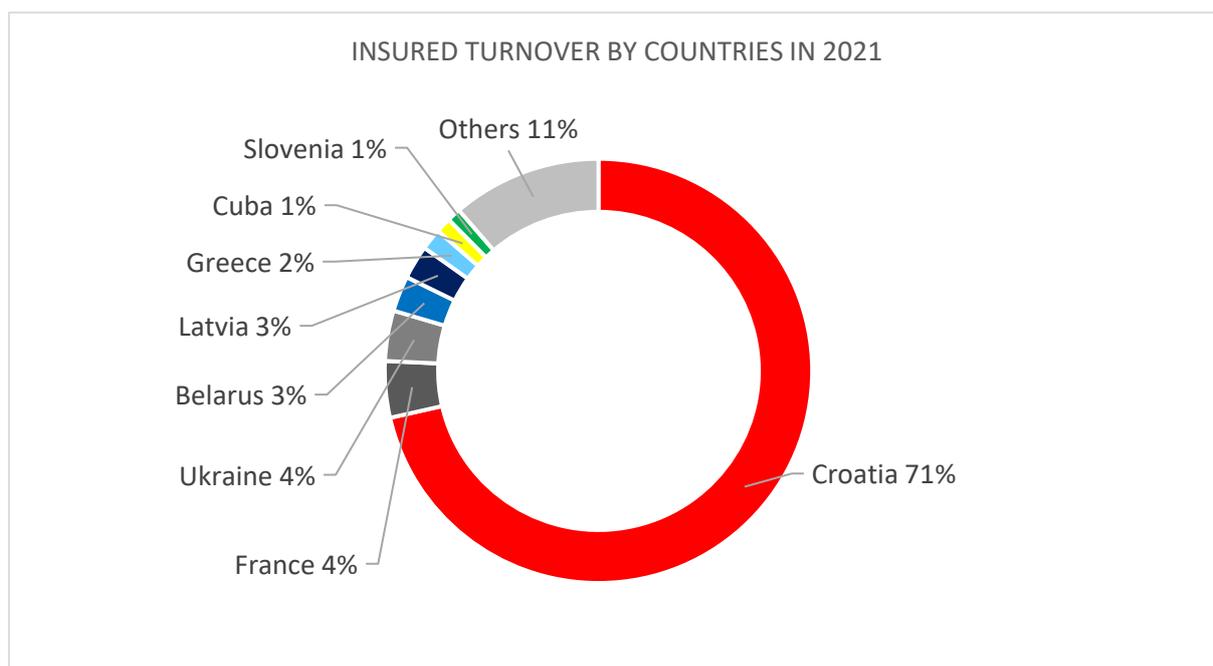
During 2021, the Programme for the Insurance of Short-Term Export Receivables and the Supplier Credit Insurance Programme were amended, and the key changes included the shortening of the period for the processing of claims, which would enable exporters to obtain indemnity in a shorter period of time, the harmonisation with changes in current regulations relating to the implementation of export credit insurance by the state and the harmonisation of terms and conditions and implementation documentation with good business practice.

In order to improve the process of considering export credit insurance in the context of corporate social responsibility, new documents were introduced in 2021 which define in more detail the procedures related to environmental and social impact assessment of project, sustainable export finance and prevention of bribery in international business transactions in line with the recommendations of the OECD (Organisation for Economic Co-operation and Development). This process places HBOR, in terms of corporate social responsibility, among other developed export credit agencies, creates preconditions for transparent and comprehensive reporting to the European Commission under Regulation 1233/2011 and reduces HBOR's reputational risk.

In 2021, through its export credit insurance programmes, HBOR supported exports of Croatian goods and services to 46 countries worldwide.

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

Description	2019	2020	2021
Insured turnover	1,141.20	2,096.80	2,626.04
Gross exposure as at 31 December	1,662.67	3,142.28	3,594.77
Insurance premium collected	16.41	13.45	53.60
Indemnities paid	138.67	0.02	1.57
Recourse collection from debtors	32.04	9.27	102.72
Guarantee Fund balance available as at 31 December	301.97	477.24	621.78



GROSS EXPOSURE

As at 31 December 2021, gross exposure of HBOR under the export credit insurance activities stood at HRK 3.59 billion, an increase of 14 percent on the same date in 2020. This is the highest gross exposure of HBOR since the start of HBOR's export credit insurance activities. This increase is a result of stronger activities under the insurance programmes introduced in 2020 for the purpose of providing support to the economy due to the crisis caused by the COVID-19 pandemic, under which cover is provided for bank loans approved to Croatian exporters.

INSURANCE OF SHORT-TERM EXPORT RECEIVABLES

Under the programme for the insurance of short-term export receivables, HBOR provides cover for short-term receivables of exporters with contracted deferred payment of up to 2 years against non-marketable³ and temporarily non-marketable risks.

Under the above programme, in 2021, HBOR insured the turnover of HRK 484.4 million, an increase of 19 percent on 2020. This is a result of a higher demand among exporters for HBOR's insurance policies due to the crisis caused by the COVID-19 pandemic that also affected the reduction of supply in the private market of export credit insurance. Most of the insured transactions related to the cover provided for exporters involved in the manufacture of photovoltaic modules, pharmaceutical preparations, wood products, electronic licences and rubber products. The largest volume of insured export turnover was realised for buyers in France, Ukraine, the Netherlands, Italy, Canada and Poland.

INSURANCE OF SHORT-TERM EXPORT RECEIVABLES FOR SMALL EXPORTERS

³ Non-marketable risks are commercial and political risks of public and private debtors domiciled outside the European Union or the OECD regardless of maturity, i.e. all risks to all debtors regardless of domicile whose maturity, including the production period, is two years or more.

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

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

The programme for the insurance of collection of short-term export receivables of small exporters is intended for small and medium-sized enterprises with an annual export turnover of up to EUR 2 million and for those starting the sales of their products and services in the foreign markets. The insurance policies allow exporters to take out insurance in a shorter period of time and with reduced administrative obligations.

In 2021, for this category of exporters, the approved volume of insurance totalled HRK 6.2 million, an increase of 13 percent on 2020. The increase in the approved insurance was influenced by the higher demand among exporters for HBOR's insurance policies due to the crisis caused by the COVID-19 pandemic. Most of the support was provided to exporters engaged in retail and wholesale trade, production of packaging, umbrellas and mobile homes. The largest volume of insured export turnover was realised for buyers in Slovenia, Italy, Kosovo, Sweden and Bulgaria.

REINSURANCE OF SHORT-TERM EXPORT RECEIVABLES

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

Under the programme for the reinsurance of short-term export receivables, in 2021, HBOR reinsured the export turnover in the amount of HRK 18.07 million, an increase of 169 percent on the turnover volume reinsured in 2020. The majority of transactions covered related to the export of goods and services in the food and processing industries for buyers in Ukraine, Serbia, Bosnia and Herzegovina and Vietnam.

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

Under the programme for the insurance of supplier credit in 2021, exports to the markets of Germany, Spain, Hungary, Greece, Latvia, Norway, the Republic of Ireland and the United Kingdom of Great Britain and Northern Ireland were insured, and, in terms of more distant export markets, HBOR supported exports to Belarus, Cuba, China, Libya, Gabon and the Dominican Republic. Under this programme, HBOR also insured some of the exporters exporting to the markets of Hungary, Belarus and Libya against the risk of inability to execute export projects due to reasons that could arise on the part of the foreign buyer (e.g. termination of contract).

Insured export transactions relate to the export of goods and services in the energy, telecommunications and machinery manufacturing sectors.

INSURANCE OF BUYER CREDITS OR BUYER'S BANK CREDITS

In 2021, under this programme, HBOR provided cover for the financing of two export projects in the market of Belarus totalling HRK 46.66 million.

INSURANCE OF PRE-EXPORT FINANCE LOANS

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

Under this programme, during 2021, the volume of insured loans totalled HRK 71.05 million. Of this amount, HRK 33.8 million related to loans approved to entrepreneurs in the wood industry in accordance with the COVID-19 Measure under the risk-sharing model between HBOR as a lender and commercial banks with the co-financing of the insurance premium by the Ministry of Agriculture up to the amount of *de minimis* aid.

Besides exporters engaged in the wood processing industry, the exporters engaged in the manufacture of photovoltaic modules and in the metal production were supported through the programme for the insurance of pre-export finance loans.

INSURANCE OF EXPORT PERFORMANCE-RELATED GUARANTEES

In 2021, the volume of insurance granted by HBOR under this programme totalled HRK 18.20 million.

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

INSURANCE OF WORKING CAPITAL LOAN PORTFOLIO FOR EXPORTERS

This programme was adopted at the end of 2019 and is implemented in cooperation with banks in order to facilitate access to working capital financing for small and medium-sized enterprises and to encourage them to export and enter new export markets. Banks, in accordance with pre-defined programme terms and conditions and insurance costs, independently decide on loans to be included in the portfolio covered by HBOR with 80 percent coverage of the principal and regular interest for each loan. In 2021, 11 loans were insured totalling HRK 8.26 million.

INDEMNITIES PAID

In 2021, two indemnities were paid under the programmes for the insurance of short-term export receivables in the total amount of HRK 1.57 million. At the same time, under all insurance programmes, the amount of HRK 0.54 million was paid to the insured as compensation for costs incurred for the purpose of reducing possible damage or for the purpose of recourse collection.

Furthermore, in 2021, five debtor non-payment notifications were received, all of which were related to the programme for the insurance of short-term export receivables.

RECOVERIES FROM DEBTORS

During 2021, HBOR collected a record annual amount of recoveries equalling HRK 102.72 million. This exceeds by 153 percent the best year so far, i.e. 2018, when the amount of HRK 40.66 million was collected. Of the stated amount collected in 2021, HRK 90.75 million (88 percent) relates to one case, which is also a record amount of recoveries collected under a single case.

RISK MANAGEMENT

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

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

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

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

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

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

- Asset and Liability Management Committee – manages liquidity risk, interest rate risk and currency risk through the prescribed policies, ordinances and procedures that regulate this area,
- Credit Risk Assessment and Measurement Committee – manages credit risk through the prescribed policies, ordinances and other internal documents that are related to credit risk,
- HBOR Information System Management Committee – manages the resources of the information system and adequately manages the risks that arise from the use of information technology.

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

Credit risk

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

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

Methodologies for the assessment of business operations of various client target groups have been adopted in addition to the Credit Risk Management Ordinance.

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

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

The Bank's development loan programmes cover the entire territory of the Republic of Croatia with a focus on the supported areas. Credit risk is diversified by geographical regions, activities, sectors and loan programmes. The Bank aims to prevent the excessive concentration of credit risk and, by providing more favourable terms and conditions and creating new loan sub-programmes (products), to promote the development of less developed regions of the Republic of Croatia in accordance with HBOR's 2020-2024 Business Strategy and the government development strategy for individual activities.

Liquidity risk, currency risk and interest rate risk in the banking book

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 activities of the Asset and Liability Management Committee in order to ensure a high-quality, integrated and comprehensive system for the management of these risks.

Liquidity risk

The basic principles for managing HBOR's liquidity risk are defined in internal documents as well as in the decisions and conclusions made by the Supervisory Board, the Management Board and the Asset and Liability Management Committee.

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

Interest rate risk

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

Currency risk

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

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

Operational risk

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

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

Due to the consequences of the earthquake in Zagreb when the Bank's main office building was damaged and due to the impact of the COVID-19 pandemic, work from home has been introduced for a large number of employees who have been provided with the resources necessary for the running of the business without interruption. Additional security controls have been established over employees' business activities and the operations of mobile devices (telephones and computers) in order to continue to operate under an appropriate level of protection.

Outsourcing risk

The Bank manages the outsourcing risk on the basis of internal documents that are in compliance with the regulations prescribed by the Croatian National Bank applicable to the Bank as a special financial institution. The internal documents that determine the management of this risk determine also the procedures for the outsourcing of activities, the rules for the management of relations with the service providers and the obligation to reduce the risk to the lowest level.

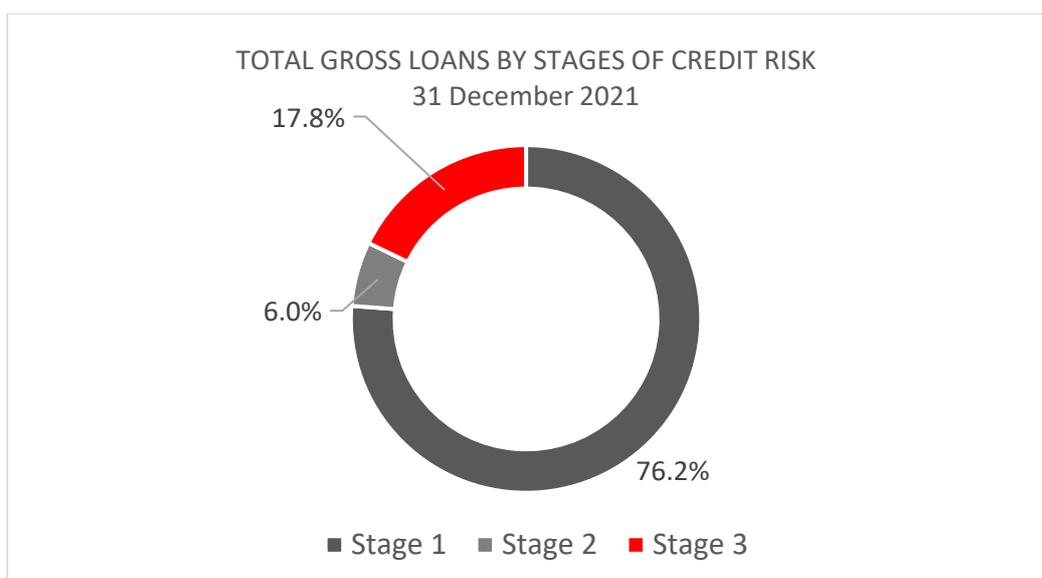
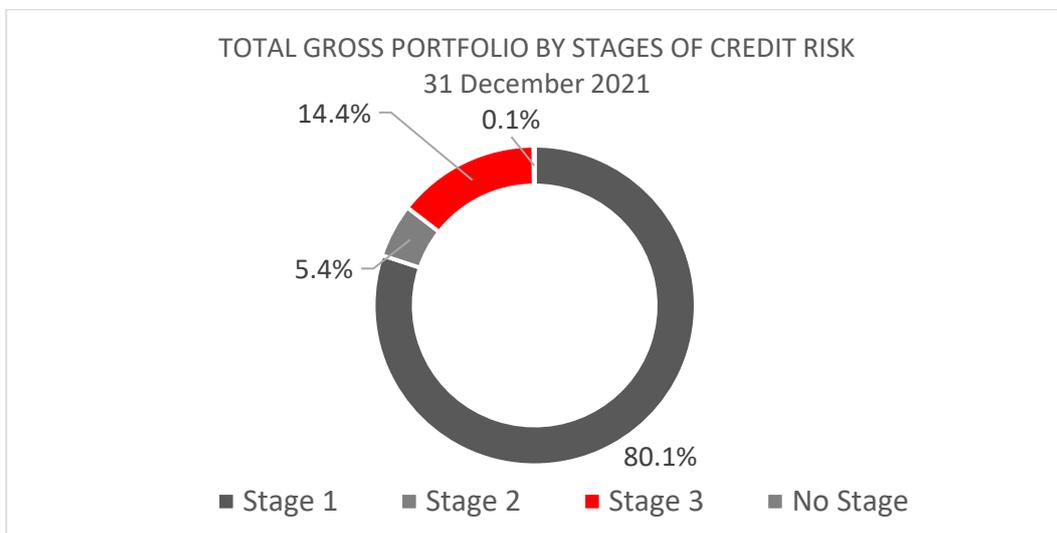
The central records of outsourced activities have been established. Reports on materially significant outsourced activities are submitted to the Management Board and the Supervisory Board of the Bank on an annual basis.

Asset quality of HBOR

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

As at 31 December 2021, HBOR's total gross portfolio amounted to approximately HRK 35.4 billion. Of the total gross portfolio, 80.1 percent was allocated to Stage 1, whereas 5.4 percent was allocated to Stage 2 and 14.4 percent was allocated to Stage 3. Loans measured at fair value that are not classified to credit risk stages represent 0.1 percent of the loan portfolio.

Due to the fact that gross loans account for 74.9 percent of the total gross portfolio, they have the biggest impact on the quality of the total gross portfolio. Altogether 76.2 percent of total loans were allocated to Stage 1, whereas 6.0 percent were allocated to Stage 2 and 17.8 percent of total gross loans to Stage 3.



INTERNAL AUDIT

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

COMPLIANCE MONITORING FUNCTION

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

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

HUMAN RESOURCES

In 2021, HBOR renewed the 2020 Employer Partner Certificate that is awarded by Selectio d.o.o. for excellence in human resource management. Since 2006, when HBOR joined the project, permanent growth and development have been observed in all aspects of human resource management. Furthermore, in 2020, HBOR was awarded the recognition for Excellence in Challenges for successfully coping with the challenges of the pandemic.

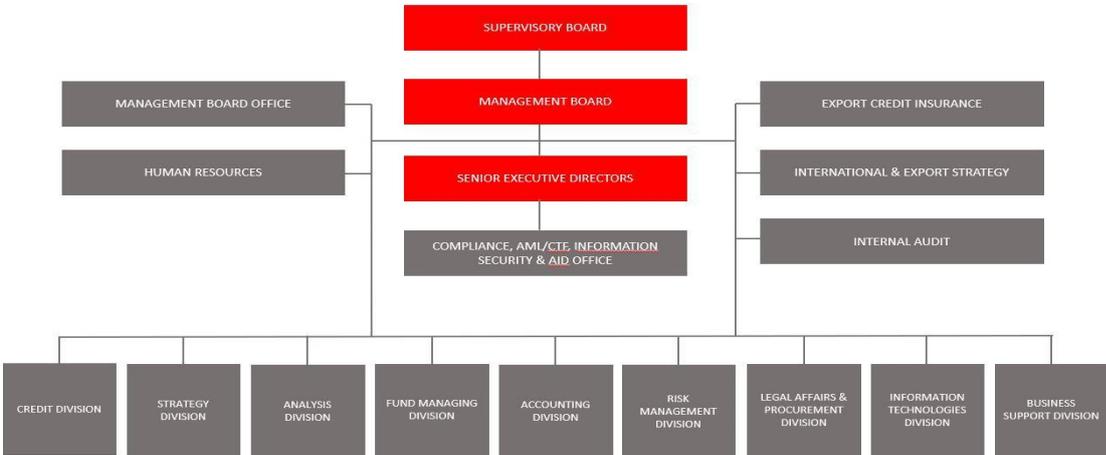
At the moment, the renewal of the 2021 certificate is in the process.

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

Due to the pandemic and the damage to business premises by the earthquake, many HBOR’s employees have started working from home since mid-March 2020. The entire operations of HBOR have been adjusted to the new circumstances, and work from home has been regulated with those employees, the nature of whose tasks and duties allows it.

As at 31 December 2021, there were altogether 375 employees, of which 344, i.e. 92 percent, holding a university degree. The average age of employees was 44. The share of women in the total number of employees was 66 percent and the share of men 34 percent.

Organisational structure of HBOR as at 31 December 2021



OTHER ACTIVITIES

Introduction of the Euro as the official currency

In 2021, the Republic of Croatia entered the last phase of preparations for the introduction of the Euro. The Croatian kuna has been included in the ERM II exchange rate mechanism since 10 July 2020. In December 2020, the Government of the Republic of Croatia adopted the National Plan for the Changeover from the Croatian Kuna to the Euro containing legislative, administrative and logistical activities necessary for the efficient and successful transition to the Euro. The introduction of the Euro requires significant legislative activity, i.e. the adoption of a general legislative act regulating the introduction of the Euro and the amendments to a number of primary and secondary legislation. The most demanding and complex step is the process of converting the Croatian kuna into the Euro. Six months before the Republic of Croatia introduces the Euro, the Council of the European Union will make a decision on the introduction of the Euro, which will determine the irrevocable kuna / Euro exchange rate (fixed exchange rate). The conversion process, on the day of the introduction of the Euro, will be defined by the Act on the Introduction of the Euro as the Official Currency in the Republic of Croatia.

In parallel with the activities of the introduction of the Euro at the national level, HBOR began, in the first quarter of 2021, assessing the impact of the replacement of the kuna by the Euro in every aspect of business in order to launch a project of the introduction of the Euro. Special focus was placed on the analysis of all HBOR's business activities with the aim of timely harmonisation with the National Plan for the Changeover from the Croatian Kuna to the Euro, the Act on the Introduction of the Euro as the Official Currency in the Republic of Croatia and the amendments to the legislation in the area of payment system, tax system, capital market, financial system and commercial law.

Digitalisation of loan origination

In 2021, production activities continued in the Loan Origination application and two phases of the new application solution were successfully released into production. The application is based on modern technological platforms and represents the basis for further digitalisation of the loan origination process and additional acceleration of business processes at HBOR.

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

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

Development of a new rating system

At the beginning of 2021, a new rating system was delivered to HBOR. The delivery marked the completion of the Project development phase and the beginning of the testing phase of individual methodologies that are components of the rating system. Given the scope and complexity of the rating system, the testing of the methodologies lasted until the end of 2021 and will continue in 2022, when, upon the completion of the testing phase, the official application of some or all of the delivered methodologies in HBOR's business processes could begin. The funding of the Project from the funds of the Structural Reform Support Service (SRSS) was approved by the European Commission, and the implementation of the Project was, in mid-2019, entrusted to the consulting company Deloitte.

International cooperation and internationalisation

Even though 2021 was marked by the continuation of the global COVID-19 pandemic, HBOR's international cooperation was very dynamic, both multilaterally and bilaterally. The wider business community has adapted to the new ways of operating, and most of the events were held in a virtual format. Due to the simpler organisation made possible by digitalisation, the number of events, meetings and exchanges has increased significantly.

Also in 2021, HBOR paid special attention to the maintenance of successful relations with international financial institutions, development banks, export credit agencies, associations and clubs such as the European Association of Public Banks (EAPB), the Network of European Financial Institutions for SMEs (NEFI), the Banking Association for Central and Eastern Europe (BACEE), the Berne Union, the United Nations Environment Programme Finance Initiative (UNEP FI), the UN Global Compact, the International Development Finance Club (IDFC), the China-CEEC Inter-Bank Association, the Invest Europe, the European Venture Fund Investors Network (EVFIN), the International Chamber of Commerce (ICC) and, as an establishing member, the European Long Term Investors association (ELTI).

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

HBOR has a very active role in several associations: Tamara Perko, President of HBOR's Management Board was, in 2021, a member of the Management Board of the European Association of Long-Term Investors (ELTI) and a member of the Administrative Board of the European Association of Public Banks (EAPB), thus ensuring adequate representation of smaller development banks in the management bodies of these associations and in lobbying for their interests in the implementation of common European policies.

Following the "Joint Declaration of All Public Development Banks" and the "Paris Development Banks Statement on Gender Equality and Women's Empowerment" signed in 2020 at the first summit of public development banks held in Paris, HBOR continued, in 2021, with its activities and with the achieving of the goals contained in the Declaration and the Statement. As a result, HBOR participated in the international comparative research study: "Study on Strengthening Gender Equality in the Development Banking Sector" together with 9 other public development banks from all over the world, and the Study was conducted by the consulting company Frankfurt School of Finance & Management.

Cooperation with the Association of Croatian Exporters continued, and the internationalisation of the economy was supported through the participation of HBOR's representatives in official economic delegations in Egypt, Azerbaijan and Ukraine and through the cooperation with the Croatian Chamber of Economy and the Ministry of Foreign and European Affairs.

HBOR actively participated in the virtual meetings of the Export Credits Group in the Council of the European Union and in the meetings of the Participants to the OECD Arrangement, where it made a significant contribution as an expert member of the Croatian delegation. Despite the extraordinary circumstances, the ECG was very active, especially due to the need to respond to the negative effects

of the pandemic on exports, disruptions in global supply chains and distorted competitiveness of European exporters globally as well as the need to focus official support for export credits and export credit insurance on the green transition through further gradual reduction in official support for coal-fired power plants.

HBOR continued to be an active member of the Berne Union in 2021 – the world's largest association of export credit insurers with 85 members from all over the world. Due to the pandemic, all Berne Union meetings in 2021 were held via video conference, except for the Autumn Meeting. With the Autumn Meeting of the Berne Union that took place in Budapest from 11 October to 15 October 2021, HBOR's two-year term of office as Deputy Chair of the Prague Club Committee of the Berne Union, one of the 4 operational committees of the Berne Union, came to an end.

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

Personal data protection

In 2021, HBOR continued with updating and supplementing the Register of Personal Data Processing Activities, adjusting business processes to the GDPR and reducing redundancy in data processing through harmonisation of business applications. Furthermore, HBOR conducted several internal employee trainings and several assessments of the impact on data protection in terms of riskier treatment. Changes in the manner of personal data processing for the purpose of harmonisation with the GDPR have additionally reduced the risks of processing personal data of HBOR's employees and clients.

Function of preventing money laundering and terrorist financing

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

Regional offices

During 2021, HBOR's Regional Offices (in Gospić, Osijek, Pula, Rijeka, Split and Varaždin), as part of the regional presence and visibility of the development bank, implemented the planned activities in the segments of contacts, presentations and education as well as initiation of lending activities proportional to the lending activities at the level of HBOR as a whole.

In the performance of the planned activities, the Regional Offices continued to successfully cooperate with the offices for the economy of local government units, with the relevant chambers of commerce, chambers of trades and crafts, entrepreneurial centres, development agencies, employment agencies and local action groups.

The majority of activities continued to focus on advising and informing entrepreneurs on the use of HBOR as a source of finance for investments in business start-ups, growth and development. Due to restrictive epidemiological measures, HBOR's Regional Offices continued to implement their activities mostly through various digital platforms in 2021.

It is still considered important, therefore, to continuously monitor and measure the impact of the Regional Offices on the placement of HBOR's financial products, i.e. to consider the Regional Offices an important distribution channel for HBOR's products, especially in the context of activities within the National Recovery and Resilience Plan and the implementation of the Operational Programmes of HBOR's 2020-2024 Business Strategy.

Public disclosure of activities

HBOR puts a special focus on providing information to the public about the goals of its operations and about the measures for their attainment as well as about the results of its activities by simultaneously following the principle of bank secrecy and its function. Therefore, through various forms of providing information, HBOR regularly informed the public about all its important activities in 2021.

In the reporting year, HBOR published 19 press releases informing the public about the operations, attained results, new loan programmes and amendments to the existing ones. All business information can be accessed on HBOR's websites, except for the information subject to the bank secrecy provisions of the Credit Institutions Act.

During the reporting period, 25 public procurement procedures were published in the Electronic Public Procurement Classifieds. Since 1 July 2017, simple procurement procedures have also been published on HBOR's websites, and from 1 January 2022, all simple procurement procedures with an estimated procurement value equal to or greater than HRK 20 thousand will be published in the Electronic Public Procurement Classifieds.

In 2021, altogether 17 requests for access to information pursuant to the Act on the Right of Access to Information were received.

OPERATIONS OF HRVATSKO KREDITNO OSIGURANJE GROUP

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

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

In 2021, HKO offered the following insurance products: insurance of domestic and export receivables.

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

As at 31 December 2021, there were 19 employees at HKO Group, of which 15 were employed with Hrvatsko kreditno osiguranje d.d. and 4 with PIS. Seventeen employees had university degrees and two had secondary school education.

Ownership structure

HKO is 100% owned by HBOR.

Management

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

People authorised to represent

Management Board in 2021:

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

Supervisory Board of HKO

In 2021, the membership of the Supervisory Board of HKO was as follows:

- Vedran Jakšić, Chairman of the Supervisory Board
- Andreja Mergeduš, Deputy Chairman of the Supervisory Board
- Ante Artuković, Member of the Supervisory Board
- Gordan Kuvek, Member of the Supervisory Board
- Marija Jerkić, Member of the Supervisory Board

Poslovni info servis d.o.o.

Jelena Boromisa performed the function of the Manager of PIS.

Ivana Paić was the authorised representative of the Company.

HKO Audit Committee

In 2021, the membership of the Audit Committee of HKO was as follows:

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

Reporting to the supervisory bodies

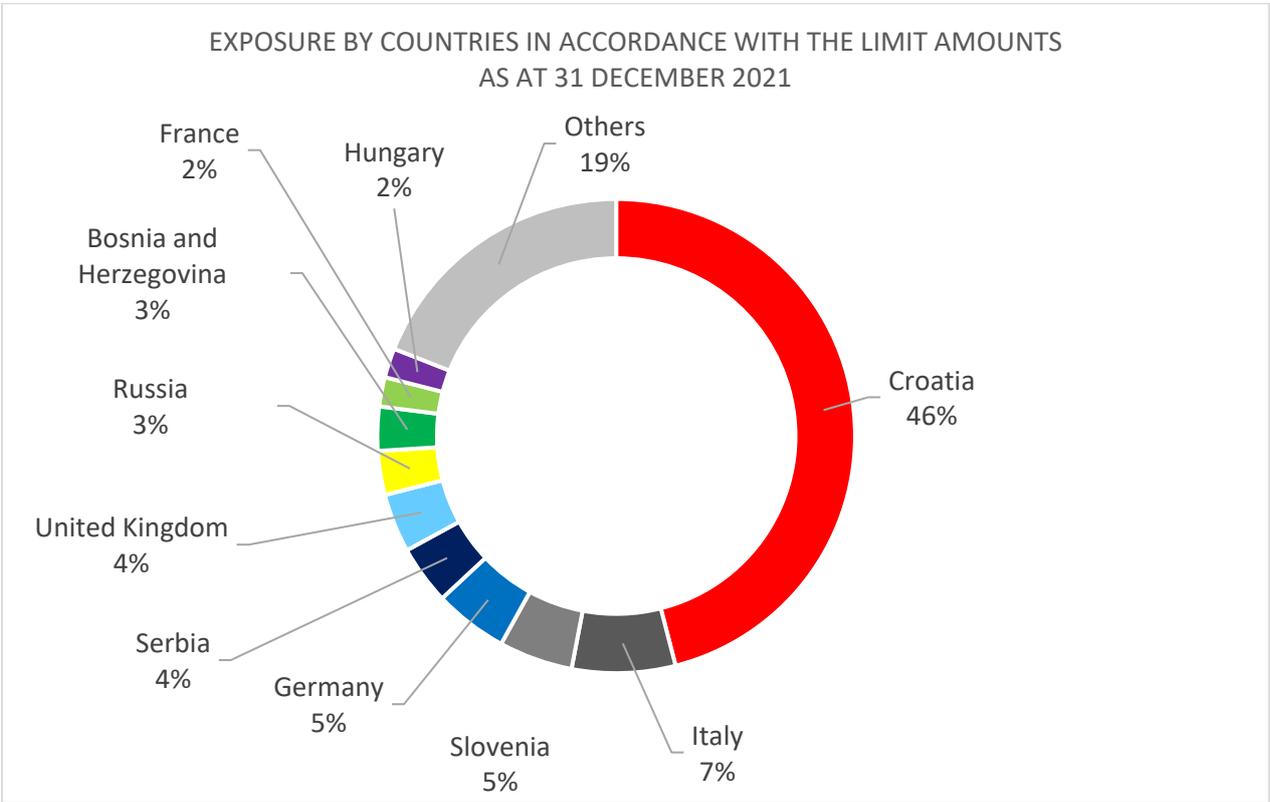
In 2021, the Company provided regular reports to the supervisory bodies on all relevant facts and changes in the Company pursuant to the Insurance Act, the ordinances of the Croatian Financial Services Supervisory Agency and other regulations in force. The Company regularly met all requirements of the supervisory bodies in terms of control of operations and submission of the Company's data.

OPERATIONS IN 2021

In 2021, Hrvatsko kreditno osiguranje d.d. generated premium income of HRK 17.6 million, an increase of 34.67 percent on the previous year. Export receivables accounted for 50.7 percent of the total premium income. In 2021, the total reported insured turnover amounted to HRK 10.7 billion, an increase of 46.91 percent on the previous year.

As at 31 December 2021, total exposure in accordance with the approved limits by buyers stood at HRK 4.3 billion, an increase of 21.38 percent compared with 31 December 2020.

As at 31 December 2021, altogether 7,685 credit limits were covered by the insurance, an increase of 4.76 percent on the previous year. Within the total structure of limits, 5,137 credit limits were related to domestic receivables and 2,548 credit limits were related to export receivables towards 65 countries of the world.



In 2021, the Company paid 5 indemnities. In 2021, the total amount of paid indemnities amounted to HRK 2.29 million, whereas the amount of paid indemnities in the previous year equalled HRK 0.97 million. The indemnities were paid for buyers in Croatia, Hungary, Italy, North Macedonia and Bosnia and Herzegovina.

Insurance business indicators

	2019	2020	2021
Volume of insured receivables, in HRK million	5,578.50	7,290.66	10,711.02
Exposure to buyers, as at 31 December, in HRK million	2,900.20	3,574.09	4,338.13
Gross premium charged, in HRK million	12.01	13.08	17.61
Amount of indemnities paid, in HRK million	7.07	0.97	2.29
Number of active limits as at 31 December	5,959	7,336	7,685

Acquisition costs, marketing costs, administration costs and other operating expenses of the HKO Group in 2021 amounted to HRK 8.09 million, whereas, at the Company level, they amounted to HRK 6.55 million.

Risk assessment fee income stood at HRK 1.89 million, whereas they amounted to HRK 1.88 million in 2020.

Net investment income in 2021 stood at HRK 1.21 million (1.09 million in 2020).

At the end of the business year 2021, the HKO Group recorded profit before taxes for the year in the amount of HRK 2.18 million, whereas 2020 was ended with a profit before taxes for the year of HRK 1.29 million.

As at 31 December 2021, the total assets of the HKO Group amounted to HRK 64.51 million, an increase of 3.51 percent on the previous year.

As at 31 December 2021, the total capital amounted to HRK 43.69 million and technical reserves to HRK 14.89 million.

PRINCIPLES OF FINANCIAL REPORTING

The HBOR Group prepares:

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

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

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

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

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

OVERVIEW OF FINANCIAL PERFORMANCE IN 2021

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

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

The separate and consolidated Annual Financial Statements of HBOR for 2021, which can be found enclosed, have been audited by the audit companies BDO Croatia d.o.o. and PKF FACT Revizija d.o.o., that expressed an unqualified opinion in the common Independent Auditor's Report.

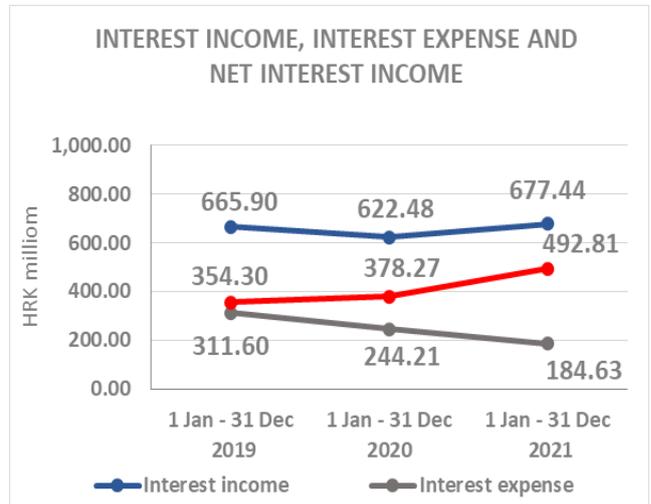
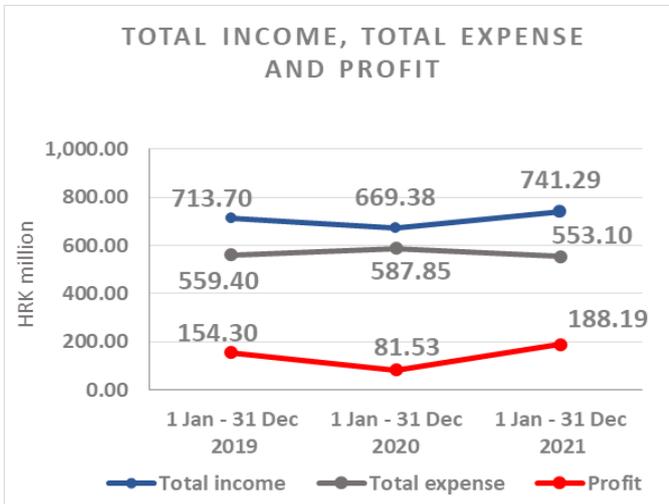
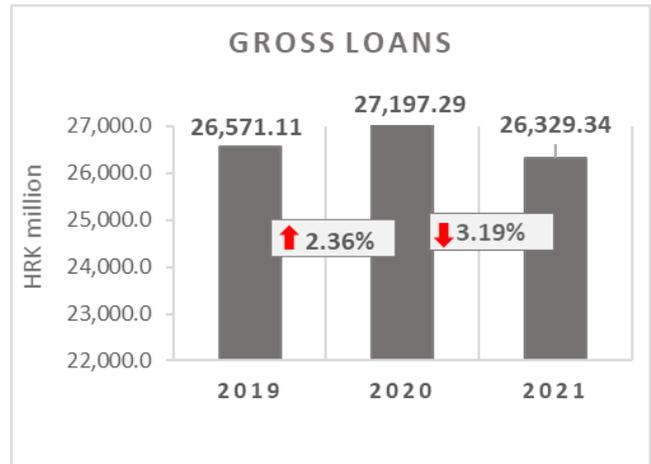
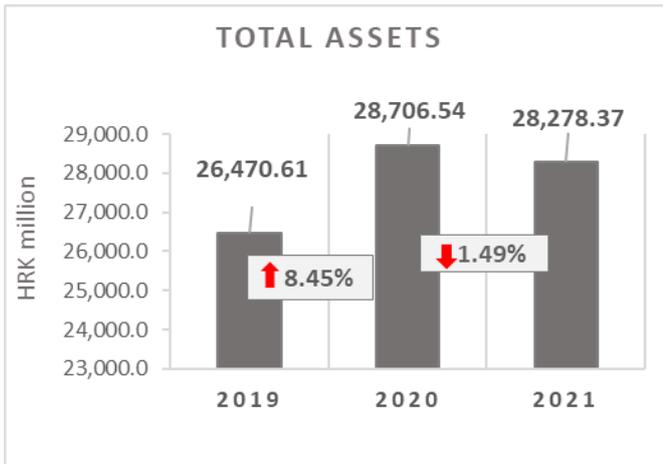
OVERVIEW OF FINANCIAL OPERATIONS OF THE GROUP

Having in mind the size of the subsidiary companies and the volume of their operations compared with the operations of the parent company, their financial data are not significant so as to be particularly highlighted within the framework of the consolidated financial statements. Consequently, they do not have a material effect on the consolidated financial statements in comparison with the separate statements of HBOR as the parent company. The HKO Group represents only 0.23 percent of the parent company's assets.

BREAKDOWN OF THE MOST SIGNIFICANT FINANCIAL INFORMATION OF HBOR GROUP

- In HRK million -

	2019	2020	2021
Total assets	26,470.61	28,706.54	28,278.37
Gross loans	26,571.11	27,197.29	26,329.34
Total equity	10,274.58	10,363.76	10,576.79
Total income	713.70	669.38	741.29
Total expense	(559.40)	(587.85)	(553.10)
Profit	154.30	81.53	188.19
Interest income calculated on the basis of effective interest rate method	665.90	622.48	677.44
Interest expense	(311.60)	(244.21)	(184.63)
Net interest income	354.30	378.27	492.81



Results of the Group

In 2021, the HBOR Group generated profit after tax in the amount of HRK 188.19 million. The recorded profit is by 130.82 percent higher as compared to the previous year, and the reasons are stated in the description of HBOR's financial performance.

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

In 2021, total income on consolidated basis amounted to HRK 741.29 million, whereas total expenses amounted to HRK 553.10 million.

In the structure of income of the HBOR Group, the largest portion, i.e. 91.39 percent, relates to interest income as a result of operation of the parent company.

The major part of total expenses relates to operating expenses (34.04 percent) and interest expenses (33.38 percent) as a result of operation of the parent company.

The consolidated operating expenses in 2021 amounted to HRK 188.30 million and consisted of general and administrative expenses and other operating expenses.

There were 394 employees in the Group on 31 December 2021, whereas there had been 386 employees in the Group at the end of 2020.

Assets and liabilities of the Group

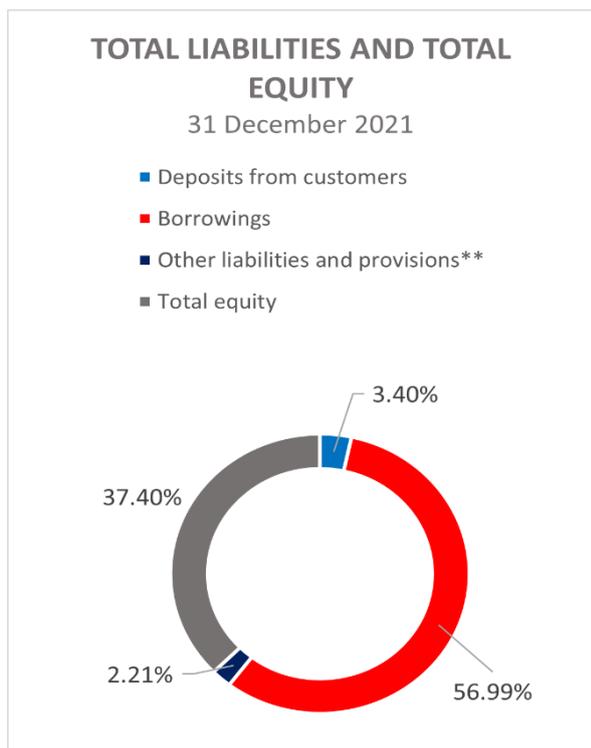
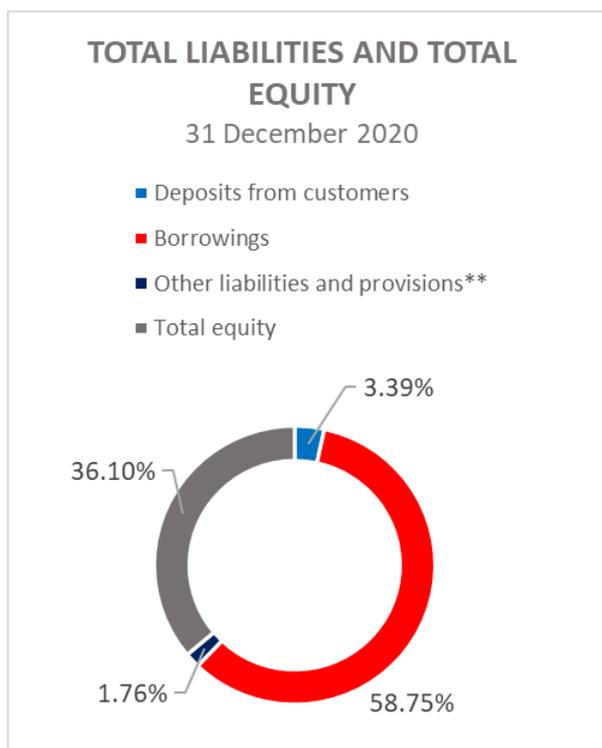
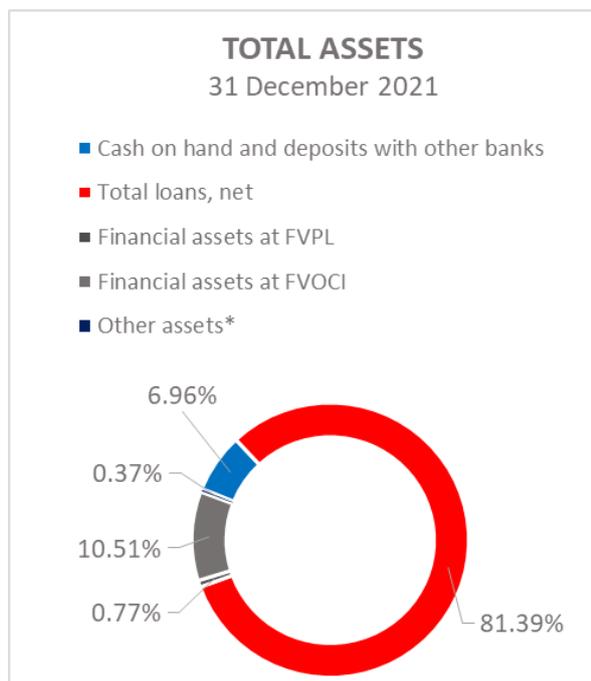
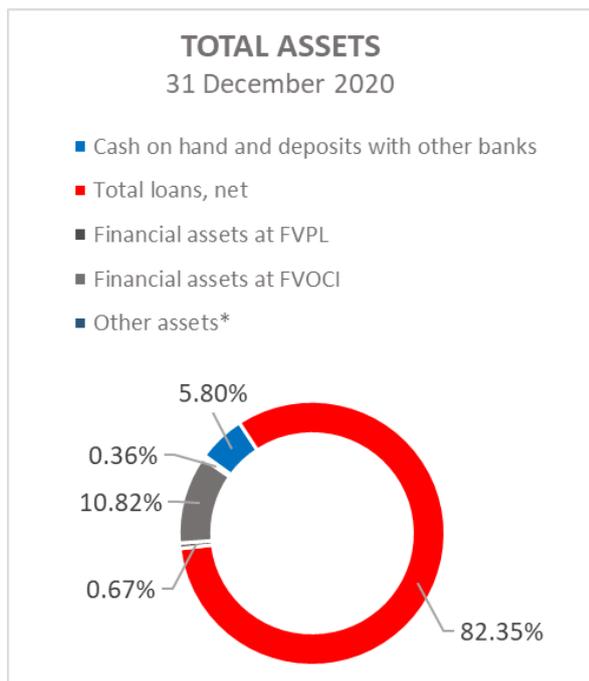
Total assets of the Group on consolidated basis amount to HRK 28,278.37 million, a decrease of 1.49 percent compared with the beginning of the year. The reasons for such tendency are given in the description of financial operations of HBOR.

In the structure of assets, the major portion relates to the lending activities of the parent company, i.e. net loans account for 81.39 percent of total assets.

Total liabilities and total equity as at 31 December 2021 amount to HRK 28,278.37 million and, out of this amount, total liabilities amount to HRK 17,701.58 million, i.e. 62.60 percent.

In total liabilities and total equity of the Group, the major portion, i.e. 57.00 percent, consists of borrowings of the parent company.

At the end of 2021, total equity on consolidated basis amounted to HRK 10,576.79 million and accounted for 37.40 percent of total liabilities and total equity of the Group.



*Property, plant and equipment and intangible assets, Foreclosed assets and Other assets.

**Other liabilities and Provisions for guarantees, commitments and other liabilities.

OVERVIEW OF FINANCIAL PERFORMANCE OF HBOR

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

Financial performance

In 2021, HBOR generated total income of HRK 728.64 million, expenses in the amount to HRK 541.56 million and profit in the amount of HRK 187.08 million. HBOR's profit generated in 2021 increased by HRK 107.74 million compared with the profit generated in 2020, i.e. by 135.80 percent.

The circumstances which resulted in the increased profit generated in 2021 compared to the profit generated in 2020 are as follows:

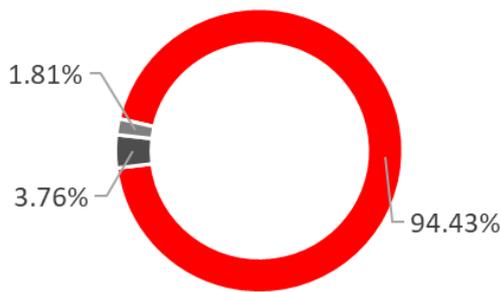
- (+) increase in interest income of HRK 54.83 million,
- (+) decrease in interest expenses of HRK 59.58 million,
- (+) increase in fee and commission net income of HRK 0.47 million,
- (-) increase in net losses from financial activities of HRK 8.80 million,
- (-) increase in operating expenses of HRK 29.58 million,
- (+) decrease in losses from impairment and provisions of HRK 19.17 million in comparison with 2020,
- (+) increase in other income of HRK 12.07 million.

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

TOTAL INCOME

1 January - 31 December 2020

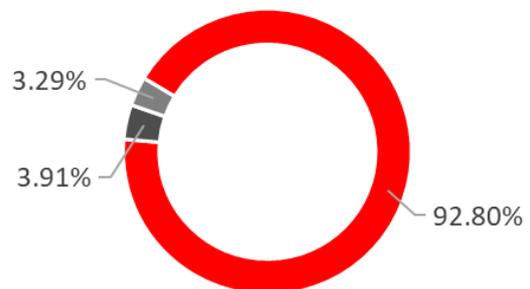
- Interest income
- Fee and commission income
- Other income



TOTAL INCOME

1 January - 31 December 2021

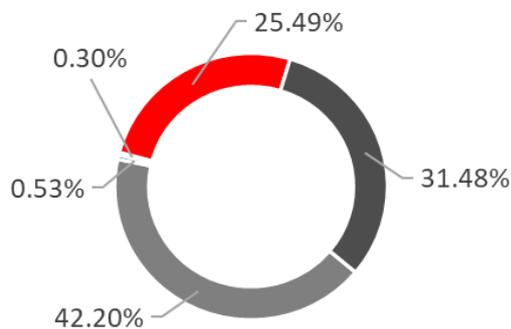
- Interest income
- Fee and commission income
- Other income



TOTAL EXPENSE

1 January - 31 December 2020

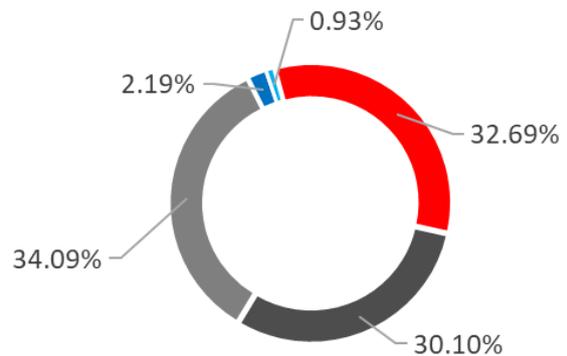
- Interest expense
- Net losses on financial operations
- Fee and commission expense
- Operating expenses
- Impairment loss and provisions



TOTAL EXPENSE

1 January - 31 December 2021

- Interest expense
- Net losses on financial operations
- Fee and commission expense
- Operating expenses
- Impairment loss and provisions



Net interest income

Net interest income amounted to HRK 491.56 million, an increase of 30.34 percent on the same period of the previous reporting year due to an increase in interest expenses of HRK 54.83 million and a decrease in interest expense of HRK 59.58 million.

Interest income calculated on the basis of the effective interest rate method amounted to HRK 676.17 million, an increase of 8.82 percent on the same reporting period last year due to one-off effect of pre-bankruptcy settlement with a debtor and significant amounts of premature loan repayments resulting in increased fee income from loan operations.

Interest expenses amounted to HRK 184.61 million, a decrease of 24.40 percent on the same reporting period last year, which was mostly affected by the repayment of borrowings and bonds payable (May 2020).

Having in mind the described trends in interest income and interest expenses, net interest margin increased by 0.37 percentage points compared with the same reporting period last year and stood at 1.73 percent.

Net fee and commission income

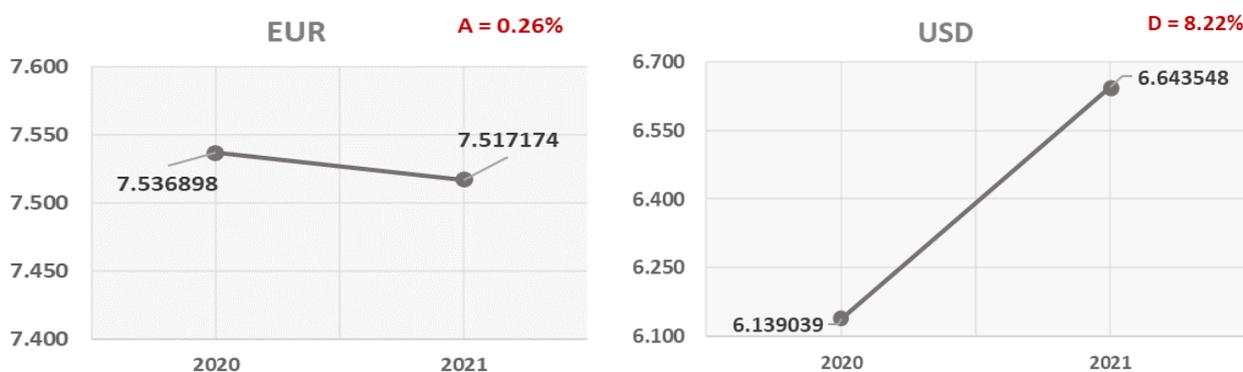
Net fee and commission income amounted to HRK 23.44 million, an increase of 2.05 percent compared with the previous year due to a larger increase in fee and commission income of HRK 3.77 million compared with the increase in fee and commission expenses of HRK 3.30 million. The increase in fee and commission income is a result of an increase in fee income under issued guarantees and under agent transactions performed for and on behalf of others.

Net gains/(losses) on financial operations

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

In the reporting period, net losses on financial operations amounted to HRK 11.84 million, whereas in the previous year, net losses amounted to HRK 3.04 million.

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



Note:

A = HRK appreciation 2021/2020

D = HRK depreciation 2021/2020

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

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

Other income

Other income amounted to HRK 23.97 million, an increase of 101.43 percent on the previous year, when it amounted to HRK 11.90 million, which is mostly the result of income realised from invoiced and paid premium costs that under Operating expenses - administrative expenses represent an increase based on the cost of premium under the portfolio insurance programme.

Operating expenses

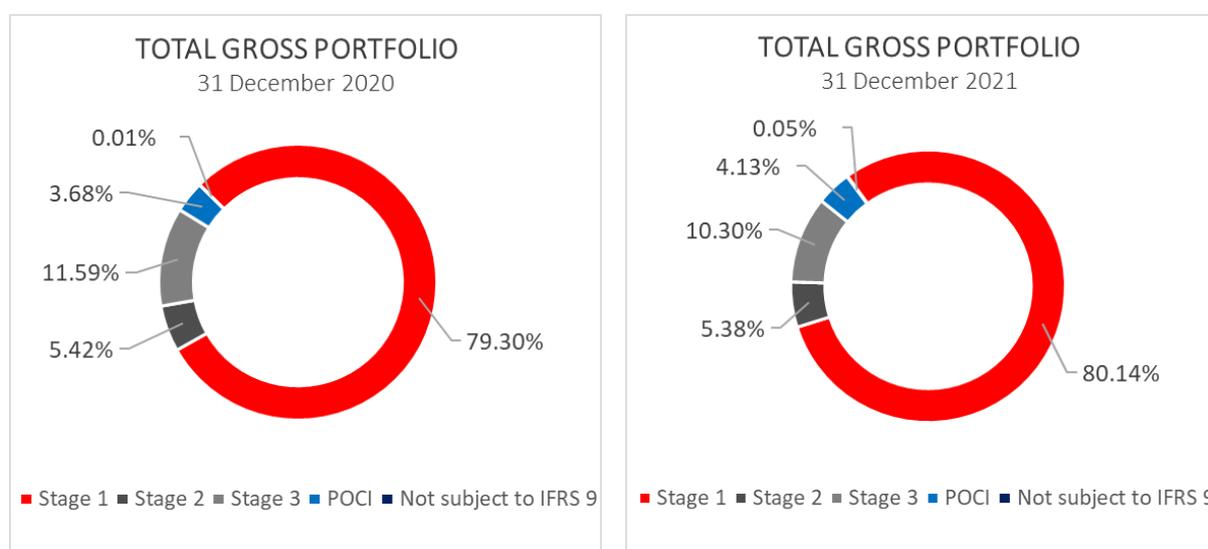
Operating expenses that include general and administrative expenses and other operating expenses stood at HRK 177.05 million, an increase of 20.06 percent compared with the previous year, mostly as a result of an increase in other expenses of HRK 14.49 million due to the recalculation under loan operations and an increase in administrative expenses of HRK 7.73 million, as a result of premium costs under the portfolio insurance programme.

At the end of 2021, the total number of employees was 375 (on 31 December 2020: 365 employees).

Impairment gain/(loss) and provisions

In the reporting period, placement impairment net losses stood at HRK 163.00 million, whereas in the previous year, they stood at HRK 182.17 million.

The text to follow contains a breakdown of portfolio quality:



Overview of total gross portfolio and provisions by structure – financial institutions and direct

	2020		2021	
	In HRK millions	Breakdown (percent)	In HRK millions	Breakdown (percent)
Total gross portfolio	37,401.32	100.00	35,412.68	100.00
Of which:				
- financial institutions	13,728.62	36.71	10,898.97	30.78
- direct	23,672.70	63.29	24,513.71	69.22
Total provisions	3,640.12	100.00	3,477.90	100.00
Of which:				
- financial institutions	92.95	2.55	63.41	1.82
- direct	3,547.17	97.45	3,414.49	98.18
Provisions/gross portfolio	9.73 percent	-	9.82 percent	-

Significant changes in financial position

Total assets of HBOR as at 31 December 2021 amounted to HRK 28,249.99 million, a decrease of 1.50 percent compared with 2020 due to repayment of borrowings.

Cash on hand and deposits with other banks

At the end of 2021, cash on hand and deposits with other banks amounted to HRK 1,966.12 million representing 6.96 percent of total assets, an increase of 18.41 percent compared with the previous year.

Loans to financial institutions and other customers

Total net loans decreased by 2.64 percent on the previous year and stood at HRK 23,014.52 million at the end of 2021 representing 81.47 percent of total assets.

Total gross loans amounted to HRK 26,329.34 million, a decrease of 3.19 percent compared with the previous year. Gross loans to other customers increased by 5.19 percent compared with the beginning of the year, mostly as a result of disbursements of loans under COVID-19 measures and public sector investments. Gross loans to financial institutions decreased by 20.35 percent on the previous year as a result of loan prepayments.

At the end of 2021, the proportion between gross loans on-lent through financial institutions and direct placements stood at 27.00 percent : 73.00 percent.

Financial assets at fair value through profit or loss

Loans at fair value (HBOR has determined that mezzanine loans are classified here), investments in investment funds, a part of equity instruments and derivative financial assets are classified to these assets. As at 31 December 2021, the total amount of these assets equalled HRK 218.98 million representing 0.78 percent of total assets.

Financial assets at fair value through other comprehensive income

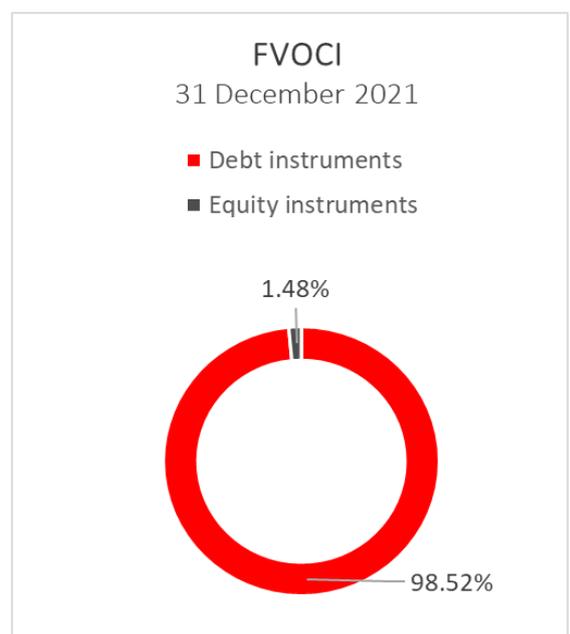
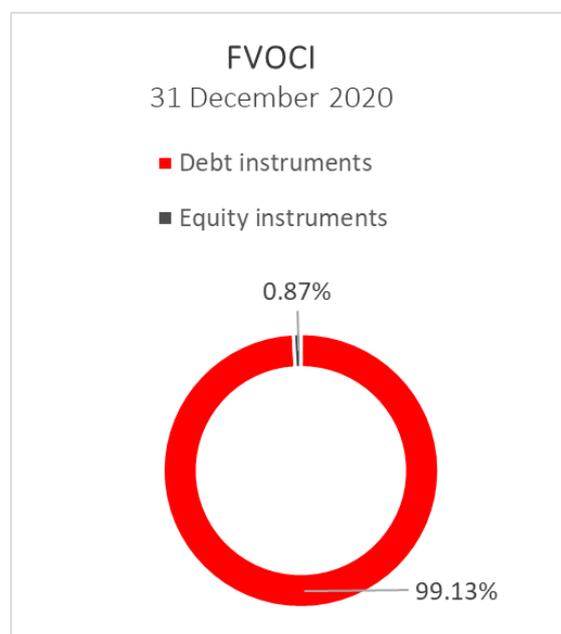
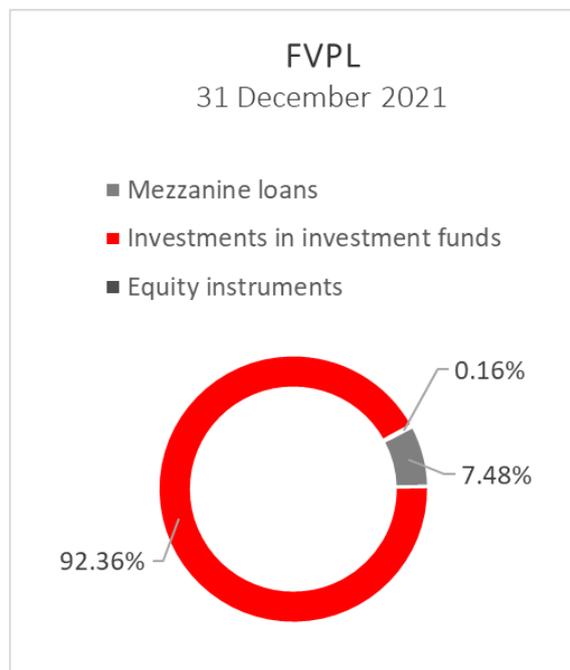
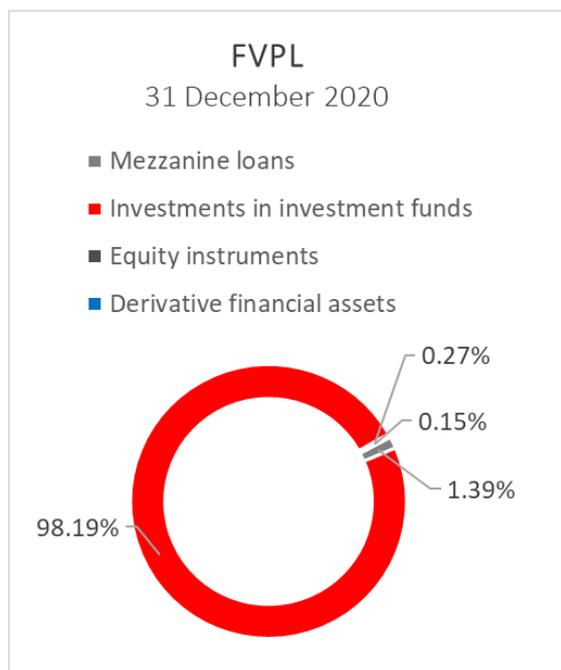
a) Debt securities

Bonds of the Republic of Croatia and of companies, and treasury bills of the Ministry of Finance as part of liquidity reserve are classified to these assets. On the reporting date, they amounted to HRK 2,872.69 million, representing 10.17 percent of total assets. The impairment of these financial assets is calculated through the application of the model of expected credit losses in the manner that provisions are recognised in the accounts of other comprehensive income, thus not reducing the carrying amount of these financial assets in the statement on financial position. On the reporting date, they amounted to HRK 4.46 million in other reserves.

b) Equity instruments

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

On the reporting date, these assets amounted to HRK 43.02 million, representing 0.15 percent of total assets.



Total liabilities

At the end of 2020, total liabilities amounted to HRK 17,682.26 million, which represents 62.59 percent of total liabilities and total equity. The major part of total liabilities consists of HBOR's foreign borrowings in the total amount of HRK 16,115.24 million.

Borrowings decreased by 4.44 percent compared with the beginning of the year, whereas changes in these liabilities are shown in the table below:

	(HRK millions)
- Draw-down of funds borrowed under previously contracted funds of special financial institutions	1,668.48
- Repayments of borrowings and bonds payable	(2,391.15)
- Foreign exchange gains or losses	(25.43)
- Other calculations *	(0.60)
Total changes	(748.70)

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

In 2021, HBOR continued to raise earmarked funds, and on 7 June 2021, a Loan Agreement for the HEAL Croatia Project (Helping Enterprises Access Liquidity) was signed in the amount of HRK 200 million with the World Bank. This project provides funds for liquidity and financial restructuring to private small and medium-sized companies as well as mid-cap companies affected by the COVID-19 pandemic, i.e. exporters, companies in the areas of special state concern and companies operating in „underserved segments/sectors“ (this includes female entrepreneurs and young enterprises operating for less than 5 years).

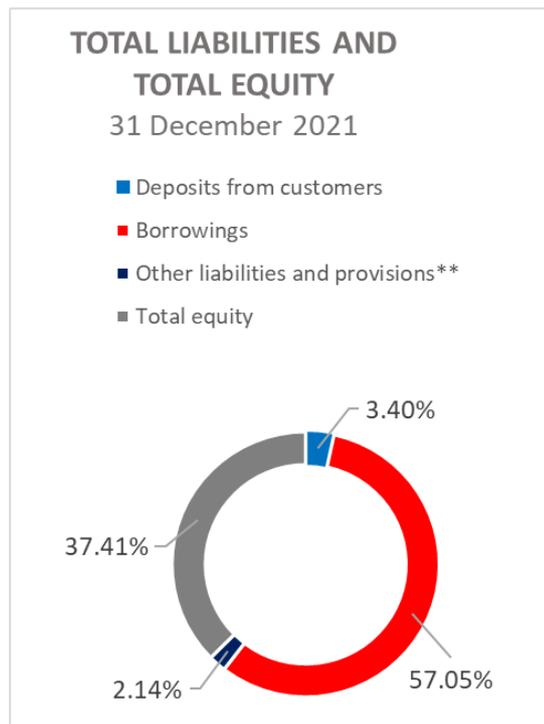
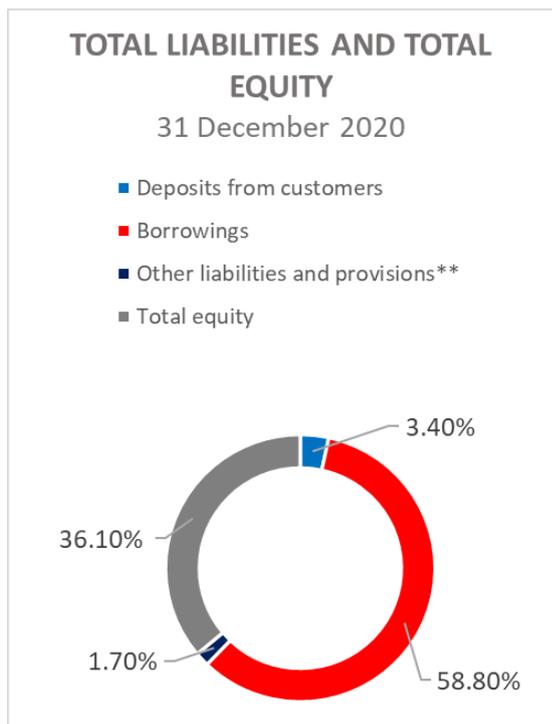
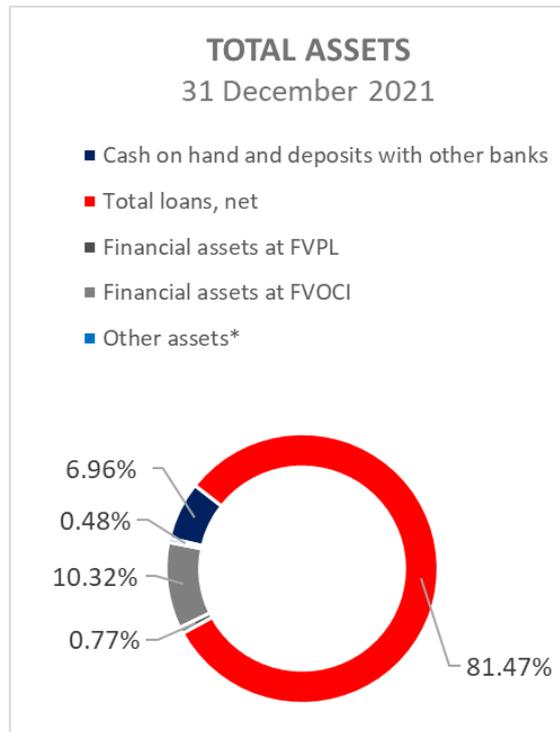
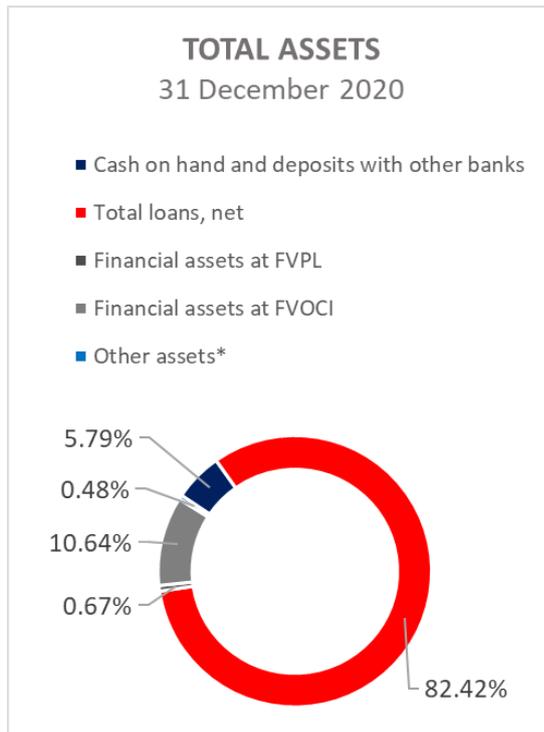
Total equity

Total equity amounted to HRK 10,567.73 million, representing 37.41 percent of total liabilities and total equity.

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

In the reporting period, the amount of HRK 50.00 million was contributed from the budget of the Republic of Croatia into the founder's capital. At the end of 2021, the total amount of capital contributed from the budget of the Republic of Croatia stood at HRK 6,758.00 million, and the remaining amount to be contributed to the founder's capital up to the total amount of HRK 7,000.00 million set by the HBOR Act is HRK 242.00 million.

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



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

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

CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Annual financial statements for 2021

Zagreb, March 2022

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

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

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

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

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

The separate and consolidated financial statements set out on pages 72 to 227 were authorised by the Management Board on 25 March 2022 for issue to the Supervisory Board and are signed below to signify this.

The Management Board is also responsible for the preparation and content of the Management Report and Statement on the Code of Corporate Governance Application as required by the Croatian Accounting Law, and other information (together “other information”). The Management Report presented on pages 4 to 5, Statement on the Code of Corporate Governance Application presented on pages 6 to 9 and other information presented on pages 10 to 60 were approved by the Management Board on 25 March 2022.

Signed on behalf of the Croatian Bank for Reconstruction and Development



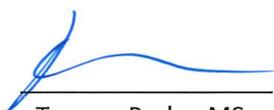
Vedran Jakšić, MSc

Senior Executive Director



Marin Prahjić

Accounting Division Executive Director



Tamara Perko, MSc

President of the Management Board



Hrvoje Čuvalo, MSc

Member of the Management Board

Zagreb, 25 March 2022

Independent Joint Auditor's Report to the owner of Croatian Bank for Reconstruction and Development
Report on the Audit of the separate and consolidated Financial Statements

Opinion

We have audited the separate financial statements of Croatian Bank for Reconstruction and Development ("the Bank") and the consolidated financial statements of the Bank and its subsidiary ("the Group"), which comprise the separate and consolidated statements of financial position of the Bank and the Group, respectively, as at 31 December 2021, and their respective separate and consolidated income statements, statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the unconsolidated financial position of the Bank and consolidated financial position of the Group as at 31 December 2021 and of their respective unconsolidated and consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the annual separate and consolidated Financial Statements. We are independent of the Bank and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

Report on the Audit of the separate and consolidated Financial Statements (continued)

Key Audit Matters (continued)

Impairment of loans to other customers	
<p>As at 31 December 2021, in the financial statements of the Bank and the Group, gross loans to other customers: HRK 19,220 milion, related impairment allowance: HRK 3,256 milion and impairment loss recognised in the income statement for the year then ended: HRK 78 milion (31 December 2020: gross loans to other customers: HRK 18,272 milion, impairment allowance: HRK 3,476 milion, release of impairment loss recognised in the income statement for the year ended 31 December 2020: HRK 70 milion).</p> <p>Please refer to note 1.3. Impact of COVID-19 on HBOR’s business and implementation of proposed measures to assist the economy in the coronavirus outbreak, 4 Summary of significant accounting policies, note 10 Impairment loss and provisions, note 15 Loans to other customers and credit risk section of the note 32 Risk management.</p>	
Key audit matter	How our audit addressed the matter
<p>Loss allowances represent the Management Board’s best estimate of the expected credit losses (“ECLs”) within loans to other customers at the reporting date. We focused on this area as the determination of loss allowances requires a significant judgment over the amounts of any such impairment.</p> <p>Impairment allowances for performing exposures (Stage 1 and Stage 2) and non-performing exposures (Stage 3) up to HRK 1.5 million individually are determined by modelling techniques (“collective impairment allowance”). These collective impairment models rely on a number of parameters such as the probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account historical experience, identification of exposures with a significant increase in credit risk, forward-looking information and management judgment.</p> <p>For non-performing exposures exceeding HRK 1.5 million individually, the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. Related loss allowances are determined on an individual basis by means of a discounted cash flows analysis.</p>	<p>Our audit procedures in this area, performed with the assistance from our own financial instruments and information technology (IT) specialists, included, among others:</p> <ul style="list-style-type: none"> • Consideration of a business model for financial asset management and review of placement groups; • Acquiring the functioning of internal control systems in relation to the process of assessing the required impairment of loans granted to the Bank’s clients; • Inquiring of the risk management and IT personnel to update our understanding of the loan provisioning process, IT applications used therein, key data sources and assumptions for data used in the ECL model. Also, assessing and testing of IT control environment for data security and access; • Inspecting the Bank’s and the Group’s impairment provisioning methods and models, and assessing their continued compliance with the relevant requirements of the financial reporting standards; • Testing the design, implementation and operating effectiveness of selected controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the identification of events of default, appropriateness of the classification of exposures into performing and non-performing and their segmentation into homogenous groups, calculation of days past due, collateral valuations and calculation of the loss allowances;

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

Report on the Audit of the separate and consolidated Financial Statements (continued)

Key Audit Matters (continued)

Impairment of loans to other customers (continued)	
Key audit matter	How our audit addressed the matter
<p>As discussed in Note 1.3., to mitigate the impact of the COVID-19 outbreak, the Government of Croatia launched aid initiatives for the hardest hit sectors and customers. The measures have an effect on the measurement of the ECLs in the current year, which had to be considered by us as part of our audit.</p> <p>For the above reasons, impairment of loans to other customers was determined by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered this area to be our key audit matter.</p>	<ul style="list-style-type: none"> • Selecting a sample of individual exposures, with focus on those from the economic sectors most affected by the COVID-19 outbreak, exposures with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk, such as watchlisted, restructured or rescheduled exposures, loans to clients operating in higher risk industries, non-performing exposures with low provision coverage and loans with significant change in the provision coverage; • For the sample selected, critically assessing, by reference to the underlying documentation (loan files) and through inquiries of the Bank’s and the Group’s loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2021; <p>For loss allowance calculated individually, our audit procedures included:</p> <ul style="list-style-type: none"> • For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Bank’s and the Group’s estimates of future cash flows used in the impairment calculation, such as discount rates, collateral values and realization period by reference to publicly available resources and historical experience. We sought the Management Board’s explanations for any material discrepancies identified. <p>For loss allowance calculated on a collective basis, our audit procedures included:</p> <ul style="list-style-type: none"> • Assessing whether the definition of default and the relevant staging criteria were appropriate and consistently applied and the effects of the market disruption resulting from the COVID-19 pandemic properly considered. • Obtaining the relevant forward-looking information and macroeconomic forecasts used in the Bank’s and the Group’s ECL estimate. Independently assessing the information by reference to publicly available sources, while also considering the effects of the market disruption resulting from the COVID-19 pandemic.

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

Report on the Audit of the separate and consolidated Financial Statements (continued)

Key Audit Matters (continued)

Impairment of loans to other customers (continued)	
Key audit matter	How our audit addressed the matter
	<ul style="list-style-type: none"> • For a sample of exposures, challenging key model parameters, as follows: <ul style="list-style-type: none"> ○ EAD - by tracing underlying data on exposures to loan contracts; ○ LGD and PD - by reference to the Bank’s historical experience, adjusted where relevant for the expected changes in economic conditions as derived from the forward-looking information; • Obtaining Bank’s and the Group’s results of back testing performed over the PD and LGD parameters used in prior periods and seeking the Management Board’s explanations for any material discrepancies identified. <p>For loss allowance in totality, our audit procedures included:</p> <ul style="list-style-type: none"> • Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposures in total gross exposures, and the non-performing loans provision coverage; • Examining whether the Bank’s and the Group’s loan impairment and credit risk-related disclosures in the financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.

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

Report on the Audit of the separate and consolidated Financial Statements (continued)

Other Information

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

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

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

If, based on the work we have done, we conclude that there is a material misstatement of this other information, we are required to report that fact. In that sense, we have nothing to report.

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

- the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act
- the Statement on the Code of Corporate Governance application includes the information required in Articles 22. paragraph 1, point 3 and 4 of the Accounting Act and contains publications in accordance with Articles 22 paragraph 1, point 2, 5, 6 and 7 of the Accounting Act.

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

- the information given in the Management Report and Corporate Governance Statement for the financial year for which the annual separate and consolidated financial statements are prepared, is consistent, in all material respects, with the annual separate and consolidated financial statements;
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Articles 21 and 24 of the Accounting Act, respectively;
- the Statement on the Code of Corporate Governance application includes the information required in Articles 22. paragraph 1, point 3 and 4 of the Accounting Act and contains publications in accordance with Articles 22 paragraph 1, point 2, 5, 6 and 7 of the Accounting Act.

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

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

Report on the Audit of the separate and consolidated Financial Statements (continued)

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

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

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

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

Auditors' Responsibilities for the Audit of the annual separate and consolidated Financial Statements

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

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

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

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

Report on the Audit of the separate and consolidated Financial Statements (continued)

Auditors' Responsibilities for the Audit of the annual separate and consolidated Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

BDO Croatia d.o.o. i PKF FACT revizija d.o.o. was appointed by those charged with governance on 28 September 2021 to audit the financial statements of the Bank and the Group for the year ended 31 December 2021. Total uninterrupted period of engagement of BDO Croatia d.o.o. is 3 years. Total uninterrupted period of engagement of PKF FACT revizija d.o.o. is 1 year.

In an audit of the annual separate and consolidated financial statements of the Bank and the Group for the year 2021, we determined the materiality levels for the annual financial statements as a whole, as follows:

- for the annual separate financial statements: HRK 105 milion
- for the annual consolidated financial statements: HRK 105 milion

which represents approximately 1% of the net assets of the Bank and the Group as at 31 December 2021.

We selected net assets as the benchmark because we believe that this is the most appropriate measure according to which users most often assess the performance of the Bank and the Group, and it is also a generally accepted measure.

Our audit opinion is consistent with the additional report for the Audit Committee of the Bank prepared in accordance with requirements of Articles 11 of Regulations (EU) no. 537/2014.

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

Report on the Audit of the separate and consolidated Financial Statements (continued)

Report on Other Legal and Regulatory Requirements (continued)

During the period between the starting date of the audited separate and consolidated financial statements of the Bank and the Group for the year 2021 and the date of this Report, we have not provide any banned non-audit services to the Bank or the Group and did not provide design and implementation of internal controls or the management procedures risk associated with the preparation and/or control of financial information or the design and implementation of financial information technology systems, and we maintained our independence from the Bank and the Group in performing the audit.

Zagreb,
25 March 2022

BDO Croatia d.o.o.
Radnička cesta 180
10000 Zagreb



Ivan Čajko, Certified Auditor and Member of
the Management Bord



BDO Croatia d.o.o.
Zagreb, Radnička cesta 180
OIB: 76394522236

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Zagreb,
25 March 2022

PKF FACT revizija d.o.o.
Zadarska 80
10000 Zagreb



Jeni Krstičević, Certified Auditor

PKF FACT revizija d.o.o.
ZAGREB, OIB: 66538066056

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Daniela Šunjić, Chairman of the Board

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

	Notes	2021 HRK '000	2020 HRK '000
Interest income calculated using the effective interest method	5	677,437	622,481
Interest expense	6	(184,626)	(244,212)
Net interest income		492,811	378,269
Fee and commission income	7	31,822	27,823
Fee and commission expense	7	(5,056)	(1,764)
Net fee and commission income		26,766	26,059
Net (losses)/gains on financial operations	8	(11,893)	(3,112)
Other income		32,030	19,084
		539,714	420,300
Employee expenses	9 a)	(100,095)	(97,018)
Depreciation and amortisation	9 b)	(11,304)	(9,423)
Other expenses	9 c)	(76,903)	(49,605)
Impairment loss and provisions	10	(163,013)	(182,264)
Profit before income tax		188,399	81,990
Income tax	11	(214)	(459)
Profit for the year		188,185	81,531
Attributable to:			
Owner of the Bank		188,185	81,531

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

Consolidated Financial Statements of the Group
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December
(All amounts are expressed in HRK thousand)

	2021	2020
	HRK '000	HRK '000
Profit for the year	188,185	81,531
Other comprehensive income		
Items that are not transferred subsequently to profit or loss:		
Unrealised actuarial (losses)	(831)	(3,666)
Total items that are not transferred subsequently to profit or loss	(831)	(3,666)
Items that may be reclassified subsequently to profit or loss:		
Net changes in financial assets at fair value through other comprehensive income	(24,513)	(14,289)
Net foreign exchange on equity instruments	(51)	333
Deferred tax – other comprehensive income	262	120
Total items that may be reclassified subsequently to profit or loss	(24,302)	(13,836)
Other comprehensive income after income tax	(25,133)	(17,502)
Total comprehensive income after income tax	163,052	64,029
Attributable to:		
Owner of the Bank	163,052	64,029

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

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

(All amounts are expressed in HRK thousand)

	Notes	2021 HRK '000	2020 HRK '000
Assets			
Cash on hand and current accounts with banks	12	1,961,986	1,659,116
Deposits with other banks	13	7,500	7,337
Loans to financial institutions	14	7,050,143	8,842,580
Loans to other customers	15	15,964,376	14,796,179
Financial assets at fair value through profit or loss	16	218,984	191,756
Financial assets at fair value through other comprehensive income	17	2,972,530	3,105,764
Investments in associates	19	-	-
Property, plant and equipment and intangible assets	20	43,937	46,448
Foreclosed assets	21	21,369	25,222
Other assets	22	37,537	32,140
Total assets		28,278,362	28,706,542
Liabilities			
Deposits from customers	23	960,541	974,393
Borrowings	24	16,115,237	16,863,935
Provisions for guarantees, commitments and other liabilities	25	190,560	108,056
Other liabilities	26	435,239	396,393
Total liabilities		17,701,577	18,342,777
Equity			
Founder's capital	27	7,184,632	7,134,632
Retained earnings and reserves		3,157,684	3,076,153
Other reserves		33,975	59,108
Profit for the year		188,185	81,531
Guarantee fund	28	12,309	12,341
Total equity		10,576,785	10,363,765
Total liabilities and total equity		28,278,362	28,706,542

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

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

	Notes	2021 HRK '000	2020 HRK '000
Operating activities			
Profit before income tax		188,399	81,990
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation and amortisation		11,304	9,423
Income tax		(214)	(459)
Impairment loss and provisions		163,030	182,264
Accrued interest		95,188	(264,094)
Deferred fees		(9,782)	(6,766)
Net gains from trading with derivative financial instruments		5,115	(4,773)
Other changes in assets at fair value		(39,134)	(4,029)
<i>Operating profit/(loss) before working capital changes</i>		<i>413,906</i>	<i>(6,444)</i>
<i>Changes in operating assets and liabilities:</i>			
Net (increase)/decrease in deposits with other banks, before impairment		(220)	547,577
Net decrease in loans to financial institutions, before impairment		1,816,385	593,314
Net increase in loans to other customers, before loss impairment		(1,336,094)	(1,031,156)
Decrease of discount in debt securities issued		-	1,521
Net decrease/(increase) in foreclosed assets		3,103	(1,606)
Net increase in other assets, before impairment		(5,071)	(5,720)
Net (decrease)/increase in deposits from banks and companies		(13,852)	797,624
Net increase in other liabilities, before provisions		39,256	56,598
Net cash provided from operating activities		917,413	951,708
Investment activities			
Purchase of financial assets at fair value through profit or loss		(50,408)	(27,001)
Sale of financial assets at fair value through profit or loss		30,548	22,847
Purchase of financial assets at fair value through other comprehensive income		(1,659,706)	(2,004,294)
Sale of financial assets at fair value through other comprehensive income		1,755,422	464,395
Sale of debt instruments at amortised cost		-	448
Investments in subsidiaries – sales and write-offs		5,979	4,356
Net purchase of property, plant and equipment and intangible assets		(6,633)	(5,479)
Net cash provided from/(used in) investment activities		75,202	(1,544,728)
Financing activities			
Increase in founder's capital		50,000	25,000
Increase in borrowings – withdrawn funds		1,668,482	4,994,515
Decrease in borrowings – repayments of principal		(2,391,147)	(2,664,047)
Decrease in bonds payable - repayment		-	(1,135,104)
Other		4,703	(5,180)
Net cash (used in)/provided from financing activities		(667,962)	1,215,184
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		(21,626)	153,714
Net effect		(21,626)	153,714
Net increase in cash and cash equivalents		303,027	775,878
Cash and cash equivalents balance as of 1 January, before impairment		1,660,768	884,890
Net increase in cash and cash equivalents		303,027	775,878
Cash and cash equivalents balance as of 31 December before impairment	12	1,963,795	1,660,768
Additional note - Operational cash flows			
Interest paid		185,187	290,702
Interest received		665,677	346,630

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

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

	Founder's capital HRK '000	Retained earnings and reserves HRK '000	Other reserves HRK '000	Profit for the year HRK '000	Guarantee fund HRK '000	Total HRK '000
Balance as of 1 January 2020	7,109,632	2,921,855	76,610	154,298	12,186	10,274,581
Profit for the year	-	-	-	81,531	-	81,531
Other comprehensive income	-	-	(17,502)	-	-	(17,502)
Total comprehensive income	-	-	(17,502)	81,531	-	64,029
Net foreign exchange - Guarantee fund	-	-	-	-	155	155
Capital paid-in from the State Budget	25,000	-	-	-	-	25,000
Transfer of profit 2019 to retained earnings	-	154,298	-	(154,298)	-	-
Balance as of 31 December 2020	7,134,632	3,076,153	59,108	81,531	12,341	10,363,765
Profit for the year	-	-	-	188,185	-	188,185
Other comprehensive income	-	-	(25,133)	-	-	(25,133)
Total comprehensive income	-	-	(25,133)	188,185	-	163,052
Net foreign exchange - Guarantee fund	-	-	-	-	(32)	(32)
Capital paid-in from the State Budget	50,000	-	-	-	-	50,000
Transfer of profit 2020 to retained earnings	-	81,531	-	(81,531)	-	-
Balance as of 31 December 2021	7,184,632	3,157,684	33,975	188,185	12,309	10,576,785

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

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

	Notes	2021 HRK '000	2020 HRK '000
Interest income calculated using the effective interest method	5	676,167	621,342
Interest expense	6	(184,610)	(244,191)
Net interest income		491,557	377,151
Fee and commission income	7	28,504	24,733
Fee and commission expense	7	(5,056)	(1,764)
Net fee and commission income		23,448	22,969
Net (losses)/gains on financial operations	8	(11,837)	(3,034)
Other income		23,972	11,896
		527,140	408,982
Employee expenses	9a)	(95,219)	(92,579)
Depreciation and amortisation	9 b)	(10,990)	(9,101)
Other expenses	9 c)	(70,845)	(45,794)
Impairment loss and provisions	10	(163,004)	(182,169)
Profit before income tax		187,082	79,339
Income tax	11	-	-
Profit for the year		187,082	79,339
Attributable to:			
Owner of the Bank		187,082	79,339

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

Separate Financial Statements of the Bank
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December
(All amounts are expressed in HRK thousand)

	2021 HRK '000	2020 HRK '000
Profit for the year	187,082	79,339
Other comprehensive income		
Items that are not transferred subsequently to profit or loss:		
Unrealised actuarial (losses)	(831)	(3,666)
Total items that are not transferred subsequently to profit or loss	(831)	(3,666)
Items that may be reclassified subsequently to profit or loss:		
Net changes in financial assets at fair value through other comprehensive income	(23,063)	(13,631)
Net foreign exchange on equity instruments	(51)	333
Total items that may be reclassified subsequently to profit or loss	(23,114)	(13,298)
Other comprehensive income after income tax	(23,945)	(16,964)
Total comprehensive income after income tax	163,137	62,375
Attributable to:		
Owner of the Bank	163,137	62,375

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

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

(All amounts are expressed in HRK thousand)

		2021	2020
	Notes	HRK '000	HRK '000
Assets			
Cash on hand and current accounts with banks	12	1,958,620	1,653,162
Deposits with other banks	13	7,500	7,337
Loans to financial institutions	14	7,050,143	8,842,580
Loans to other customers	15	15,964,376	14,796,179
Financial assets at fair value through profit or loss	16	218,984	191,756
Financial assets at fair value through other comprehensive income	17	2,915,704	3,053,326
Investments in subsidiaries	18	36,124	36,124
Investments in associates	19	-	-
Property, plant and equipment and intangible assets	20	42,674	45,592
Foreclosed assets	21	21,369	25,222
Other assets	22	34,494	29,082
Total assets		28,249,988	28,680,360
Liabilities			
Deposits from customers	23	960,541	974,393
Borrowings	24	16,115,237	16,863,935
Provisions for guarantees, commitments and other liabilities	25	190,303	107,796
Other liabilities	26	416,178	379,612
Total liabilities		17,682,259	18,325,736
Equity			
Founder's capital	27	7,184,632	7,134,632
Retained earnings and reserves		3,153,745	3,074,406
Other reserves		29,961	53,906
Profit for the year		187,082	79,339
Guarantee fund	28	12,309	12,341
Total equity		10,567,729	10,354,624
Total liabilities and total equity		28,249,988	28,680,360

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

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

	Notes	2021 HRK '000	2020 HRK '000
Operating activities			
Profit before income tax		187,082	79,339
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation and amortisation		10,990	9,101
Impairment loss and provisions		163,004	182,169
Accrued interest		95,170	(264,129)
Deferred fees		(9,782)	(6,766)
Net gains from trading with derivative financial instruments		5,115	(4,773)
Other changes in assets at fair value		(39,134)	(4,029)
<i>Operating profit/(loss) before working capital changes</i>		<i>412,445</i>	<i>(9,088)</i>
<i>Changes in operating assets and liabilities:</i>			
Net (increase)/decrease in deposits with other banks, before impairment		(220)	547,577
Net decrease in loans to financial institutions, before impairment		1,816,385	593,314
Net increase in loans to other customers, before impairment		(1,336,094)	(1,031,156)
Decrease of discount in debt securities issued		-	1,411
Net decrease/(increase) in foreclosed assets		3,103	(1,606)
Net increase in other assets, before impairment		(5,021)	(8,381)
Net (decrease)/increase in deposits from banks and companies		(13,852)	797,624
Net increase in other liabilities, before provisions		36,566	56,365
Net cash provided from operating activities		913,312	946,060
Investment activities			
Purchase of financial assets at fair value through profit or loss income		(50,408)	(27,001)
Sale of financial assets at fair value through profit or loss		30,548	13,100
Purchase of financial assets at fair value through other comprehensive income		(1,651,703)	(1,987,783)
Sale of financial assets at fair value through other comprehensive income		1,753,422	461,048
Investments in subsidiaries – sales and write-offs		5,979	4,356
Net purchase of property, plant and equipment and intangible assets		(5,912)	(5,273)
Net cash provided from/(used in) investment activities		81,926	(1,541,553)
Financing activities			
Increase in founder's capital		50,000	25,000
Increase in borrowings – withdrawn funds		1,668,482	4,994,515
Decrease in borrowings – repayments of principle		(2,391,147)	(2,664,047)
Decrease in bonds payable - repayment		-	(1,135,104)
Other		4,712	(5,963)
Net cash (used in)/provided from financing activities		(667,953)	1,214,401
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		(21,666)	153,931
Net effect		(21,666)	153,931
Net increase in cash and cash equivalents		305,619	772,839
Cash and cash equivalents balance as of 1 January, before impairment		1,654,805	881,966
Net increase in cash and cash equivalents		305,619	772,839
Cash and cash equivalents balance as at 31 December, before impairment	12	1,960,424	1,654,805
Additional note – operating activities			
Interest paid		185,187	290,702
Interest received		664,320	345,342

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

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

	Founder's capital HRK '000	Retained earnings and reserves HRK '000	Other reserves HRK '000	Profit for the year HRK '000	Guarantee fund HRK '000	Total HRK '000
Balance as at 1 January 2020	7,109,632	2,919,356	70,870	155,050	12,186	10,267,094
Profit for the year	-	-	-	79,339	-	79,339
Other comprehensive income	-	-	(16,964)	-	-	(16,964)
Total comprehensive income	-	-	(16,964)	79,339	-	62,375
Net foreign exchange - Guarantee fund	-	-	-	-	155	155
Capital paid-in from the State Budget	25,000	-	-	-	-	25,000
Transfer of profit 2019 to retained earnings	-	155,050	-	(155,050)	-	-
Balance as at 31 December 2020	7,134,632	3,074,406	53,906	79,339	12,341	10,354,624
Profit for the year	-	-	-	187,082	-	187,082
Other comprehensive income	-	-	(23,945)	-	-	(23,945)
Total comprehensive income	-	-	(23,945)	187,082	-	163,137
Net foreign exchange - Guarantee fund	-	-	-	-	(32)	(32)
Capital paid-in from the State Budget	50,000	-	-	-	-	50,000
Transfer of profit 2020 to retained earnings	-	79,339	-	(79,339)	-	-
Balance as at 31 December 2021	7,184,632	3,153,745	29,961	187,082	12,309	10,567,729

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

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

for the year ended 31 December 2021

(All amounts are expressed in HRK thousand)

1. General information

1.1. Group:

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

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

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

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

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

As of 31 December 2021, the Group had 394 employees (31 December 2020: 386 employees).

1.2. Bank:

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

1. General information (continued)

1.2. Bank (continued):

Supervisory Board

As of 31 December 2021, 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 Buričević, 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.

The Government of the Republic of Croatia, at its meeting held on 17 March 2022, adopted a Decision on the Appointment of Ivan Paladina as Minister of Physical Planning, Construction and State Assets and as Member of the Supervisory Board of the Croatian Bank for Reconstruction and Development as well as a Decision on the Dismissal of Darko Horvat from the Position of Member of the Supervisory Board of the Croatian Bank for Reconstruction and Development.

Management Board

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

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

As of 31 December 2021, HBOR had 375 employees (31 December 2020: 365 employees).

Audit Committee

As of 31 December 2021, 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 year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

1. General information (continued)

1.2. Bank (continued):

1.2.1. Activities of the Bank:

The principal activities of the Bank comprise the following:

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

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

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

The emergence of COVID-19 (coronavirus) and the global spread, particularly since mid-March 2020, of the COVID-19 pandemic in most parts of the world, have created significant immediate challenges and risks and have undoubtedly affected economic activity in the Republic of Croatia, including the HBOR Group.

In order to facilitate the overcoming of the crisis situation caused by the epidemic in the Republic of Croatia, the Government of the Republic of Croatia adopted the Proposal of Measures to Assist the Economy Due to the Coronavirus Epidemic in 2020 with an objective of maintaining the level of economic activity, preserving the liquidity of economic entities and, most importantly, preserving the jobs. HBOR, as a development bank, has an extremely important role and was also in those changed conditions extremely active in the implementation of the COVID-19 Measures during 2020, which were continued in 2021 as described in the 2021 Management Report.

The HBOR Group and HBOR focused on key risks arising from financial instruments, and in particular on estimating the amounts arising from expected credit losses. The Bank has applied the EBA and HNB guidelines for all direct clients with whom any deal has been made: moratorium or rescheduling for the purpose of mitigating the consequences of COVID-19. An obligation has been introduced to assess clients' financial difficulties during 2021 in order to determine whether the difficulties caused by the pandemic are of a long-term or short-term nature and whether they have a minimum impact without affecting the client's business significantly.

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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

1. General information (continued)

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

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

- 10. Impairment loss and provisions;
- 32.3. Credit risk;
- 32.3.3. Analysis of input for ECL model within the framework of impact of macroeconomic conditions on PD;
- 32.3.2.5. Significant increase in credit risk and
- 32.4. Liquidity risk.

Furthermore, HBOR Group is comprised of HBOR as the parent company and of subsidiary companies: Hrvatsko kreditno osiguranje d.d. (hereinafter: HKO) and Poslovni info servis d.o.o. constituting HKO Group that represents 0.2% of the parent company's total assets. The Management Board of the subsidiary companies is taking the necessary measures to reduce the effects of the pandemic.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

2. Basis of Preparation of the Financial Statements

2.1. Statement of compliance

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. They were authorised for issue by the Bank's Management Board on 25 March 2022.

2.2. Measurement

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

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

2.3. Functional and presentation currency

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

3. Use of judgements and estimates

For the preparation of financial statements in accordance with IFRSs, the Management Board is required to give estimations and make assumptions that influence the reported balances of assets and liabilities and to disclose contingent assets and liabilities at the date of financial statements, and present income and expense for the reporting period. Estimations and related assumptions are based on historical experience and various other factors that are considered to be reasonable in the given circumstances and with available information as of the date of preparation of the financial statements, which together form the basis for estimating the carrying amount of assets and liabilities that cannot be easily identified from other sources. Actual results may differ from these estimations. Estimations and related assumptions are continuously reviewed. Changes in accounting estimates are recognised in the period in which the estimate is changed if the change affects only that period, or in the period of change or future periods if the change affects the current and future periods.

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

Judgements

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

3. Use of judgements and estimates (continued)

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2021 is included in the following notes

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

4. Summary of significant accounting policies

4.1. Significant accounting policies

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

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

A. Basis of consolidation

Subsidiaries

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

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

Non-controlling interests

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

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

Loss of control

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

A. Basis of consolidation (continued)

Transactions eliminated on consolidation

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

Associates

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

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

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

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

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

B. Foreign currency transactions and foreign currency clause

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

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

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

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

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

31 December 2021	1 EUR = HRK 7.517174	1 USD = HRK 6.643548
31 December 2020	1 EUR = HRK 7.536898	1 USD = HRK 6.139039

C. Interest income and expense

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

C. Interest income and expense (continued)

Amortised cost and gross carrying amount (continued)

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

Calculation of interest income and expense

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

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

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

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

C. Interest income and expense (continued)

Calculation of interest income and expense (continued)

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

D. Fee and commission income

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

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

E. Leases

(a) The Group as a lessee

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

E. Leases (continued)

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

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

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

The Group discloses the right-of-use assets in Note 22. Other assets, and lease liabilities in Note 26. Other liabilities, due to immaterial amount.

Short-term leases and leases of low-value assets

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

The Group had no financial leases in its portfolio.

The average incremental interest rate applied by the Group to leases is 3.07% (in 2020: 3.07%). The Group calculated the incremental interest rate for each leased property, taking into account the risk-free interest rate (for individual borrowing currency), economic conditions, difference in the Group's financing cost for investments, the lease maturity, and the location of property.

(b) The Group as a lessor

Leases in which the lessor retains substantially all the risks and rewards incidental to ownership of an underlying asset are classified as operating leases. Operating lease assets are included in 'Investments in property' in the statement of financial position. Investments in property are disclosed in Note 22. Other assets due to immaterial amount. Assets are depreciated on a straight-line basis in the same way as other items of property and equipment. Lease income is recognised over the term of the lease.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

F. Income tax

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

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

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

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

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

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

G. Financial assets and financial liabilities

i. Recognition and initial measurement

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

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

ii. Classification

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

ii. Classification (continued)

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

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

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

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

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

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

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

Business models

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

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

Business models of the Group are:

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

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

- o current accounts with banks,

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

ii. Classification (continued)

Business models (continued)

- deposits with banks,
- loans and reversed repo placements,
- other receivables.

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

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

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

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

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

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

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

iii. SPPI test

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

iii. SPPI test (continued)

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

SPPI test is performed:

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

iv. Reclassification of financial assets

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

v. Derecognition

Financial assets

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

v. Derecognition (continued)

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

Financial liabilities

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

vi. Modification of financial assets

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

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

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

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

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

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

viii. Fair value measurement

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

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

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

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

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

viii. Fair value measurement (continued)

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

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

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

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

The fair value of bonds issued by HBOR is presented by using level 2 inputs that are observable at Bloomberg service on the basis of mid-rate of Bloomberg Generic (BGN) prices.

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

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

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

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

Comparison between the fair value and the carrying value of financial instruments that are not measured at fair value is given in Note 33. 2.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

ix. Impairment

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

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

Impairment is performed by applying the general and simplified approach.

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

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

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

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

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

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

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

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

For detailed explanation of the triggers for classification in Stage 2 please see Note 32. Risk management.

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

ix. Impairment (continued)

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

ix. Impairment (continued)

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

ix. Impairment (continued)

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

Details regarding the methodology are stated in Note 32. Risk Management.

x. Financial assets-categories

Financial assets of the Group are comprised of:

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

Current accounts with banks

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

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

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

Deposits with banks

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

x. Financial assets-categories (continued)

Loans

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

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

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

x. Financial assets-categories (continued)

Debt securities

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

x. Financial assets-categories (continued)

Equity securities

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

Investments are broken down as follows:

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

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

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

The same accounting treatment is used for every investment category.

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

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

Investments without significant influence – equity stake below 20 %

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

x. Financial assets-categories (continued)

Equity securities (continued)

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

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

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

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

Investments in associates – significant influence (exceeding 20%)

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

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

Shares in investment funds

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

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

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

Derivative financial instruments

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

x. Financial assets-categories (continued)

Derivative financial instruments (continued)

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

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

HBOR does not hold or issue derivatives for speculative purposes.

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

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

Other receivables

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

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

x. Financial assets-categories (continued)

Other receivables (continued)

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

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

H. Property, plant and equipment and intangible assets

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

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

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

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

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

Land is not depreciated.

Estimated useful lives are as follows:

		2021		2020
	Useful life expressed in years	Annual depreciation rates	Useful life expressed in years	Annual depreciation rates
Buildings	20	5%	20	5%
Computers	2	50%	2	50%
Furniture and Equipment	4	25%	4	25%
Vehicles	5	20%	5	20%
Other assets and investments not mentioned	10	10%	10	10%
Intangible Assets	4	25%	4	25%

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

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

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

I. Investment property

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

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

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

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

	2021	2020
	years	years
Leased property	20	20

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

Investment property is stated in Note 22. Other assets due to immaterial amount.

J. Foreclosed assets

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

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

Depreciation on these assets is not charged.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

J. Foreclosed assets (continued)

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

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

K. Deposits, borrowings and debt securities issued

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

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

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

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

L. Government grants

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

M. Loan commitments

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

For other loan commitments:

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

Liabilities arising from loan commitments are included within provisions.

N. Employee benefits

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

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

O. Segment reporting

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

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

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

P. Managed funds for and on behalf of third parties

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

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

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

Revenues and expense relating to this business activity are charged to third parties, and the Bank does not have other liabilities nor bears any risks. For services provided within the framework of some of the programmes, the Bank charges a fee, whereas other programmes are performed by the Bank free of charge (see Note 30.).

4.2. Adoption of new and amended International Financial Reporting Standards ("IFRS") and Interpretations

First application of new and amendments to existing standards in force in the current reporting period

In the current reporting period, the following amendments to existing standards are in force, published by the International Accounting Standards Board ("IASB") and adopted by the European Union:

- COVID-19 Concessions beyond 30 June 2021 (Amendments to IFRS 16) - extended period of application of the exemption until 30 June 2022 (effective for annual periods beginning on or after 1 April 2021);
- Interest Rate Benchmark Reform – Phase 2 introduces amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 and is not mandatory until annual periods beginning on or after 1 January 2021.

The adoption of these amendments to existing standards did not result in significant changes in the Group's financial statements.

Standards and amendments to existing standards published by the IASB and adopted in the European Union, but not yet in force

At the date of approval of these financial statements, the following amendments to existing standards issued by the IASB and adopted by the European Union have been issued but are not effective:

- Annual Improvements 2018-2020 cycle – (effective for annual periods beginning on or after 1 January 2022);
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment - Onerous Contracts – Cost of Fulfilling a Contract): amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous (effective for annual periods beginning on or after 1 January 2022);
- IAS 16 Property, Plant and Equipment (amendment – Proceeds before Intended Use): amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss (effective for annual periods beginning on or after 1 January 2022);
- IFRS 3 Business Combinations - Reference to the Conceptual Framework (effective for annual periods beginning on or after 1 January 2022);

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies (continued)

4.2. Adoption of new and amended International Financial Reporting Standards (“IFRS”) and Interpretations (continued)

New standards and amendments to existing standards published by the IASB, but not yet adopted in the European Union

IFRS currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards and amendments to existing standards, the adoption of which the European Union on 31 December 2021 has not yet decided (the effective dates set out below refer to IFRSs issued by the IASB):

- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2023)

HBOR Group is preparing to apply IFRS 17 Insurance Contracts, including amendments to IFRS 17 (effective in the EU from 1 January 2023). Testing of the application is in progress and a simulation of new calculations of technical reserves and recording scheme has been made to be followed by an update of internal documents related to the standard. The impact of the application will be quantified during 2022.

Furthermore, the Group expects that the adoption of the following new standards and amendments to existing standards will not lead to significant changes in the Group's financial statements in the period of first application of the standards:

- IAS 1 Presentation of Financial Statements (amendment - Classification of Liabilities as Current or Non-current)
- IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 (amendment - Disclosure of Accounting Policies)
- IAS 8 Accounting Policies – Changes in Accounting Estimates and Errors (amendment – Definition of Accounting Estimates)
- IAS 12 Income Taxes (amendment – Deferred tax related to assets and liabilities arising from a single transaction).

The above changes are effective for annual periods beginning on or after 1 January 2022.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

5. Interest income calculated using the effective interest method

Interest income by borrowers:

	Group		Bank	
	2021	2020	2021	2020
	HRK '000	HRK '000	HRK '000	HRK '000
Public sector	143,012	116,636	141,742	115,497
State-owned companies	26,068	39,280	26,068	39,280
Foreign companies	18,671	37,183	18,671	37,183
Domestic companies	312,150	271,284	312,150	271,284
Domestic financial institutions	116,437	133,484	116,437	133,484
Foreign financial institutions	1,817	302	1,817	302
Penalty interest	42,576	7,941	42,576	7,941
Other	16,706	16,371	16,706	16,371
	677,437	622,481	676,167	621,342

Interest income by type of facility:

	Group		Bank	
	2021	2020	2021	2020
	HRK '000	HRK '000	HRK '000	HRK '000
Interest on loans				
- financial institutions	116,440	133,616	116,440	133,616
- other customers	530,259	458,335	530,259	458,335
	646,699	591,951	646,699	591,951
Investments in securities	28,911	30,226	27,641	29,087
- <i>Bonds of the Republic of Croatia</i>	28,138	29,473	26,899	28,348
- <i>Corporate bonds</i>	195	176	164	162
- <i>Treasury bills of the Ministry of Finance</i>	578	577	578	577
Deposits	1,827	304	1,827	304
	677,437	622,481	676,167	621,342

The main difference between interest income and interest received or collected (see Statement of Cash Flows) mostly relates to the income in respect to interest subsidies inflows that are recorded upon payment. The discounted amount of the interest subsidies provided for the final user is presented as deferred interest income (see Note 26 Other liabilities) and is recognized in profit or loss on a time basis during the repayment of the loan. Interest income earned on this basis in 2021 amounts to HRK 48,331 thousand (31 December 2020: HRK 38,412 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

6. Interest expense

Interest expense by type of payee:

	2021	Group	2021	Bank
	HRK '000	2020	HRK '000	2020
		HRK '000		HRK '000
Domestic financial institutions	6	336	6	336
Foreign financial institutions	170,811	236,874	170,811	236,874
State units	13,737	6,863	13,737	6,863
Other	72	139	56	118
	184,626	244,212	184,610	244,191

Interest expense by type of facility:

	2021	Group	2021	Bank
	HRK '000	2020	HRK '000	2020
		HRK '000		HRK '000
Borrowings	183,973	213,738	183,973	213,738
Debt securities	49	25,334	49	25,334
Deposits	532	5,001	532	5,001
Leases – interest expenses on long term contracts	72	139	56	118
	184,626	244,212	184,610	244,191

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

7. Net fee and commission income

	2021	Group	2021	Bank
	HRK '000	2020	HRK '000	2020
		HRK '000		HRK '000
Fee and commission income from contracts with customers:				
Asset management - from managed funds for and on behalf of third parties	22,079	20,624	22,079	20,624
From payment operations	164	206	164	206
Other	36	3	36	3
Total fee and commission income from contracts with customers	22,279	20,833	22,279	20,833
From issued guarantees	6,225	3,900	6,225	3,900
Reinsurance commission income	3,318	3,090	-	-
Total fee and commission income	31,822	27,823	28,504	24,733
Fee and commission expense	(5,056)	(1,764)	(5,056)	(1,764)
Net fee and commission income	26,766	26,059	23,448	22,969

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

8. Net gains/(losses) on financial operations

	2021	Group	2021	Bank
	HRK '000	2020	HRK '000	2020
		HRK '000		HRK '000
Net foreign exchange gains/(losses) on foreign currency assets:				
Cash on hand, accounts at banks and due from banks	(1,976)	(2,040)	(1,976)	(2,040)
Loans given to financial institutions and other customers	(20,858)	139,717	(20,858)	139,717
Financial assets at fair value through profit or loss	853	772	853	772
Debt instruments at amortised cost	-	1	-	-
Financial assets at fair value through other comprehensive income	(1,953)	130	(1,905)	(124)
Other	4,606	4,726	4,606	4,726
	<u>(19,328)</u>	<u>143,306</u>	<u>(19,280)</u>	<u>143,051</u>
Net foreign exchange gains/(losses) on foreign currency liabilities:				
Deposits	(3,468)	3,085	(3,468)	3,085
Borrowings and issued long-term securities	25,402	(156,246)	25,402	(156,246)
Other	(1,626)	(650)	(1,618)	(717)
	<u>20,308</u>	<u>(153,811)</u>	<u>20,316</u>	<u>(153,878)</u>
Net foreign exchange gains/(losses) on foreign currency assets and liabilities	980	(10,505)	1,036	(10,827)
Gains/(losses) on assets at fair value through profit or loss	(7,758)	2,898	(7,758)	3,020
Gain/(loss) from trading with derivative financial instruments	(5,115)	4,773	(5,115)	4,773
Realized gains/(losses) on financial assets at fair value through other comprehensive income	-	(278)	-	-
Net (losses)/gains on financial operations	(11,893)	(3,112)	(11,837)	(3,034)

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

9. Operating expenses

Operating expenses can be shown as follows:

	2021	Group	2021	Bank
	HRK '000	2020	HRK '000	2020
		HRK '000	HRK '000	HRK '000
9 a) Employee expenses	100,095	97,018	95,219	92,579
9 b) Depreciation	11,304	9,423	10,990	9,101
9 c) Other expenses	76,903	49,605	70,845	45,794
<i>From what:</i>				
<i>Administration expenses</i>	20,883	12,989	20,354	12,626
<i>Material and services</i>	31,373	28,391	29,643	26,814
<i>Other expenses</i>	24,647	8,225	20,848	6,354
	188,302	156,046	177,054	147,474

Material and services contain audit costs as follows:

	2021	Group	2021	Bank
	HRK '000	2020	HRK '000	2020
		HRK '000	HRK '000	HRK '000
Audit services	701	750	563	563
Non-audit services	-	74	-	74
Audit expenses	701	824	563	637

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

	2021	Group	2021	Bank
	HRK '000	2020	HRK '000	2020
		HRK '000	HRK '000	HRK '000
Change in the claims provision	1,610	708	-	-
Change in the claims provision, reinsurer's share	(61)	(421)	-	-
Expenses of insurance operations	1,549	287	-	-

Provisions for losses as at 31 December 2021 consisted of reported and unreported losses in the framework proportion 46:54. At the end of 2021, total gross provisions for losses increased compared to the end of 2020 by 10%. The Bornhuetter-Ferguson method was used with respect to the gross amount of reserves for the losses not reported, whereas the amount of the actual losses incurred was used with respect to the reported losses. The reinsurance share was determined in accordance with the terms and conditions of reinsurance in force.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

10. Impairment loss and provisions

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

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

	2021	Group	2021	Bank
	HRK '000	2020	HRK '000	2020
		HRK '000		HRK '000
Impairment losses on cash on hand and due from financial institutions	156	1,160	160	1,155
Impairment losses on deposits with other banks	(1)	(1,268)	(1)	(1,268)
Impairment losses on loans to financial institutions	(23,698)	23,836	(23,698)	23,836
Impairment losses on loans to other customers and interest	78,124	69,861	78,124	69,861
Modification (gain)/loss – financial institutions	(611)	4,297	(611)	4,297
Modification (gain)/loss – other customers	(14,231)	59,587	(14,231)	59,587
POCI assets – fair value adjustment at initial recognition	45,151	40,093	45,151	40,093
Impairment of financial assets at fair value through other comprehensive income	(29)	1,193	(36)	1,182
Provisions for impairment losses on debt instruments at amortised cost	-	(1)	-	-
Impairment losses on other assets	(2,542)	(1,032)	(2,551)	(1,001)
Provisions for commitments	7,503	(13,998)	7,503	(13,998)
Provision for guarantees	74,799	2,184	74,799	2,184
Total	164,621	185,912	164,609	185,928

b) Other impairment losses and provisions

	2021	Group	2021	Bank
	HRK '000	2020	HRK '000	2020
		HRK '000		HRK '000
Impairment losses on foreclosed assets	750	582	750	582
Provision for other liabilities	(2,358)	(4,230)	(2,355)	(4,341)
Total	(1,608)	(3,648)	(1,605)	(3,759)
Total	163,013	182,264	163,004	182,169

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

11. Income tax

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

	2021	Group 2020
	HRK '000	HRK '000
Recognised in Income Statement		
Current tax - recognised in Income Statement	(214)	(459)
Income tax	(214)	(459)
Income tax reconciliation		
Profit before tax	188,399	81,990
Profit of the Bank not subject to income tax	(187,082)	(79,339)
Profit before tax subject to income tax	1,317	2,651
Income tax at 18% rate	(174)	(400)
Income tax at 10% rate (2020: 12% rate)	(35)	(51)
Non-deductible expense	(5)	(8)
Total income tax expense	(214)	(459)

The determined tax liability is subject to different interpretations regarding the assessment of the eligibility of costs and the coverage of income for tax purposes. The Group has undertaken a number of activities to ensure that the determined current tax liability is entirely in compliance with the Income Tax Act.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

12. Cash on hand and current accounts with banks

	31 December 2021 HRK '000	Group 31 December 2020 HRK '000	31 December 2021 HRK '000	Bank 31 December 2020 HRK '000
Account with the Croatian National Bank	1,879,493	1,491,187	1,879,493	1,491,187
Cash on hand	1	5	1	5
Foreign currency account - domestic banks	9	155,772	-	155,766
Foreign currency account - foreign banks	80,938	9,512	80,930	7,847
Domestic currency account - domestic banks	3,354	4,292	-	-
	<u>1,963,795</u>	<u>1,660,768</u>	<u>1,960,424</u>	<u>1,654,805</u>
Loss allowances	(1,809)	(1,652)	(1,804)	(1,643)
	<u>1,961,986</u>	<u>1,659,116</u>	<u>1,958,620</u>	<u>1,653,162</u>

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

	31 December 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	1,963,794	-	-	1,963,794	1,960,423	-	-	1,960,423
Loss allowances	(1,809)	-	-	(1,809)	(1,804)	-	-	(1,804)
Balance as of 31 December 2021	<u>1,961,985</u>	<u>-</u>	<u>-</u>	<u>1,961,985</u>	<u>1,958,619</u>	<u>-</u>	<u>-</u>	<u>1,958,619</u>

	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)
Balance as of 31 December 2020	<u>1,659,111</u>	<u>-</u>	<u>-</u>	<u>1,659,111</u>	<u>1,653,157</u>	<u>-</u>	<u>-</u>	<u>1,653,157</u>

The difference in relation to the total gross and net balance of Cash on Hand and Deposits with other Banks relates to the balance of cash on hand that does not represent credit risk.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

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

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

	Jan 1 – Dec 31, 2021	Group Jan 1 - Dec 31, 2020	Jan 1 - Dec 31, 2021	Bank Jan 1 - Dec 31, 2020
	HRK '000	HRK '000	HRK '000	HRK '000
Balance as of 1 January	1,652	483	1,643	479
Net increase of loss allowances on amounts due from banks	156	1,160	160	1,155
<i>Total recognised through Income Statement (Note 10)</i>	<i>156</i>	<i>1,160</i>	<i>160</i>	<i>1,155</i>
Net foreign exchange gain/loss on loss allowances	1	9	1	9
Balance at the end of the reporting period	1,809	1,652	1,804	1,643

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

13. Deposits with other banks

	31 December 2021 HRK '000	Group and Bank 31 December 2020 HRK '000
Deposits with foreign banks	7,501	7,280
Accrued interest	-	58
	7,501	7,338
Loss allowances	(1)	(1)
	7,500	7,337

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

31 December 2021

	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	Group and Bank Total HRK '000
Gross amount	7,501	-	-	7,501
Loss allowances	(1)	-	-	(1)
Balance as of 31 December 2021	7,500	-	-	7,500

31 December 2020

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

13. Deposits with other banks (continued)

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

	Jan 1 – Dec 31, 2021 HRK '000	Group and Bank Jan 1 - Dec 31, 2020 HRK '000
Balance as of 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 10)</i>	<i>(1)</i>	<i>(1,268)</i>
Net foreign exchange gain/loss on loss allowances	1	13
Balance at the end of the reporting period	1	1

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

14. Loans to financial institutions

	31 December 2021 HRK '000	Group and Bank 31 December 2020 HRK '000
Long-term loans under loan programmes	7,043,581	8,765,744
Short-term loans and reverse repo transactions	83,239	177,574
Accrued interest	3,418	10,907
Deferred recognition of loan origination fees	(21,195)	(28,848)
	<u>7,109,043</u>	<u>8,925,377</u>
Loss allowances	(58,900)	(82,797)
	<u>7,050,143</u>	<u>8,842,580</u>

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

31 December 2021	Group and Bank			
	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	Total HRK '000
Gross amount	6,895,375	203,944	9,724	7,109,043
Loss allowances	(29,554)	(23,184)	(6,162)	(58,900)
Balance as of 31 December 2021	<u>6,865,821</u>	<u>180,760</u>	<u>3,562</u>	<u>7,050,143</u>

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

14. Loans to financial institutions (continued)

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

	Jan 1 - Dec 31, 2021 HRK '000	Group and Bank Jan 1 - Dec 31, 2020 HRK '000
Balance as of 1 January	82,797	58,698
Net (decrease)/increase of loss allowances on loans to financial institutions	(23,698)	23,836
<i>Total recognised through Income Statement (Note 10)</i>	<i>(23,698)</i>	<i>23,836</i>
Net foreign exchange gain/loss on loss allowances	(97)	272
Loss allowances transferred to loans to other customers	(16)	(36)
Unwinding – changes due to the lapse of time	(86)	27
Balance at the end of the reporting period	58,900	82,797

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

14. Loans to financial institutions (continued)

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

	31 December 2021 HRK '000	Group and Bank 31 December 2020 HRK '000
EU Projects	205,630	146,416
Financial Restructuring	23,247	3,792
Pre-Export Finance	1,013	1,015
Public Sector Investment	826,013	298,851
Private Sector Investment	201,419	169,996
Youth, Female, Start-up Entrepreneurship	57,234	31,056
Working Capital	12,556	1,778
Working Capital – COVID 19 measures	72,067	44,457
Loan programme for reconstruction and development of the economy	926,987	1,382,832
Export financing	1,459,505	2,095,602
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	968,724	1,421,077
Loan programme for small and medium-sized enterprises	2,285,623	3,164,285
Loan programme for war-torn and demolished housing and business facilities	3,563	4,587
Other	83,239	177,574
Accrued interest	3,418	10,907
Deferred recognition of loan fees	(21,195)	(28,848)
	<u>7,109,043</u>	<u>8,925,377</u>
Loss allowances	(58,900)	(82,797)
	<u>7,050,143</u>	<u>8,842,580</u>

Average interest rates for total loans to financial institutions are stated at 0.41% (31 December 2020: 0.48%) 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 8,239 thousand (31 December 2020: HRK 27,574 thousand). The above placements are collateralized by securities in the amount of HRK 8,660 thousand (31 December 2020: HRK 28,996 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

15. Loans to other customers

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

	Group and Bank	
	31 December 2021	31 December 2020
	HRK '000	HRK '000
Domestic companies	11,570,002	10,388,049
State-owned companies	917,403	1,474,038
Public sector	5,545,114	4,489,021
Foreign companies	377,281	981,652
Other	498,027	542,754
Accrued interest	393,345	484,863
Deferred recognition of loan origination fees	(80,880)	(88,468)
	<u>19,220,292</u>	<u>18,271,909</u>
Loss allowances	(3,255,916)	(3,475,730)
	<u>15,964,376</u>	<u>14,796,179</u>

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

31 December 2021	Group and Bank				
	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Gross amount	13,160,690	1,383,772	3,262,835	1,412,995	19,220,292
Loss allowances	(381,609)	(555,807)	(2,099,064)	(219,436)	(3,255,916)
Balance as of 31 December 2021	<u>12,779,081</u>	<u>827,965</u>	<u>1,163,771</u>	<u>1,193,559</u>	<u>15,964,376</u>

31 December 2020	Group and Bank				
	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Gross amount	11,479,156	1,606,757	3,918,415	1,267,581	18,271,909
Loss allowances	(353,077)	(517,219)	(2,422,493)	(182,941)	(3,475,730)
Balance as of 31 December 2020	<u>11,126,079</u>	<u>1,089,538</u>	<u>1,495,922</u>	<u>1,084,640</u>	<u>14,796,179</u>

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

15. Loans to other customers (continued)

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

	Jan 1 - Dec 31, 2021 HRK '000	Group and Bank Jan 1 - Dec 31, 2020 HRK '000
Balance as of 1 January	3,475,730	3,365,074
Net increase of loss allowances on loans to other customers and interest	78,124	69,861
<i>Total recognised through Income Statement (Note 10)</i>	<u>78,124</u>	<u>69,861</u>
Net foreign exchange gain/loss on loss allowances	10,478	479
Write-offs	(35,053)	(384)
Transfer to off-balance sheet records	(271,036)	-
Derecognition due to the reduction to fair value as a result of the transfer to the portfolio of financial assets at fair value through profit or loss	(48,019)	-
Derecognition due to sale of receivables	(737)	-
Loss allowances transferred from loans to financial institutions	16	36
Unwinding – changes due to the lapse of time	25,087	40,997
Acquisition of immovable property	-	(6,198)
Interest transferred from the off-balance sheet records and other	21,326	5,865
Balance at the end of the reporting period	<u>3,255,916</u>	<u>3,475,730</u>

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

The write-off of receivables in the amount of HRK 35,053 thousand relates mostly to the permanent removal from the business records due to the sale of receivables, due to the debtor's bankruptcy proceedings and termination of operations, as well as due to the pre-bankruptcy settlement.

The transfer to the off-balance sheet records in the amount of HRK 271,036 thousand was performed on the basis of the prescribed criteria in the Methodology for the Write-off of Receivables.

The cancellation of provisions due to the reduction to fair value in the amount of HRK 48,019 thousand was carried out after the pre-bankruptcy settlement of the debtor, based on which 50% of the debt was converted into senior debt, and 50% into mezzanine debt. When reducing the mezzanine debt to fair value, the previously formed provisions were cancelled.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

15. Loans to other customers (continued)

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

	Group and Bank	
	31 December 2021	31 December 2020
	HRK '000	HRK '000
EU Projects	308,294	115,740
Financial Restructuring	1,186,514	834,309
Pre-Export Finance	96,193	38,528
Public Sector Investment	1,478,380	878,539
Private Sector Investment	730,358	509,264
Youth, Female, Start-up Entrepreneurship	31,287	13,111
Working Capital	690,681	347,833
Working Capital – COVID 19 measures	1,645,736	608,444
Loan programme for reconstruction and development of the economy	2,254,094	2,847,070
Export financing	4,375,411	5,377,356
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	4,713,628	4,535,276
Loan programme for small and medium-sized enterprises	1,140,626	1,503,037
Other	256,625	267,007
Accrued interest	393,345	484,863
Deferred recognition of loan origination fees	(80,880)	(88,468)
	<u>19,220,292</u>	<u>18,271,909</u>
Loss allowances	<u>(3,255,916)</u>	<u>(3,475,730)</u>
	<u>15,964,376</u>	<u>14,796,179</u>

Average interest rates on loans to other customers are stated at 1.86% (31 December 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 year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

16. Financial assets at fair value through profit or loss

	31 December 2021 HRK '000	Group and Bank 31 December 2021 HRK '000
<i>Loans at FVPL:</i>		
Mezzanine loans	16,375	2,658
	16,375	2,658
<i>Investments in investment funds:</i>		
Investments in investment funds at FVPL	202,260	188,289
	202,260	188,289
<i>Unlisted equity instruments:</i>		
Investments in corporate shares	31	31
Depository receipt - DR	318	319
Investments in financial institutions' shares	-	161
	349	511
Derivative financial assets-positive fair value	-	298
	218,984	191,756

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 0 thousand) (0.03% portion) relate to the shares of the company Helios Faros d.d., in bankruptcy, acquired by HBOR in substitution for a portion of receivables by accepting the company's bankruptcy restructuring plan.

Non-listed equity securities in the amount of HRK 318 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 31 December 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 year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

17. Financial assets at fair value through other comprehensive income

	31 December 2021 HRK '000	Group 31 December 2020 HRK '000	31 December 2021 HRK '000	Bank 31 December 2020 HRK '000
Debt instruments:				
Listed debt instruments:				
Bonds of the Republic of Croatia	1,358,981	1,519,381	1,304,974	1,469,742
Corporate bonds	2,393	2,355	-	-
Treasury bills of the Ministry of Finance	1,550,344	1,537,395	1,550,344	1,537,395
Accrued interest	15,620	17,663	15,194	17,219
	2,927,338	3,076,794	2,870,512	3,024,356
Unlisted debt instruments:				
Corporate bonds	532	564	532	564
Convertible bonds - CB	1,397	1,307	1,397	1,307
Accrued interest	247	391	247	391
	2,176	2,262	2,176	2,262
Equity instruments:				
Unlisted equity instruments:				
Investments in shares of foreign legal entities - SWIFT	45	43	45	43
Shares of foreign financial institutions – EIF	42,971	26,665	42,971	26,665
	43,016	26,708	43,016	26,708
	2,972,530	3,105,764	2,915,704	3,053,326

Non-listed convertible bonds (CB) of the Fortenova Group TopCo B.V. in the amount of HRK 1,397 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.

By the decision of the Supervisory Board of HBOR of 26 September 2021 on HBOR's participation in the increase in capitalisation of the European Investment Fund (EIF) by subscribing (purchasing) additional five shares, HBOR acquired additional five EIF's shares. The amount paid represents 20% of the nominal value of the purchased shares, while the remaining 80% was recorded as a contingent liability to the EIF, which amounted to EUR 800 thousand as at 31 December 2021 (Note 29).

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

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

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

31 December 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	2,928,045	-	1,469	2,929,514	2,871,219	-	1,469	2,872,688
Balance as of 31 December 2021	2,928,045	-	1,469	2,929,514	2,871,219	-	1,469	2,872,688

31 December 2020				Group			Bank	
	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	Total HRK '000	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	Total HRK '000
Gross amount	3,077,679	-	1,377	3,079,056	3,025,241	-	1,377	3,026,618
Balance as of 31 December 2020	3,077,679	-	1,377	3,079,056	3,025,241	-	1,377	3,026,618

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

	Group			Bank
	Jan 1 – Dec 31, 2021	Jan 1 – Dec 31, 2020	Jan 1 – Dec 31, 2021	Jan 1 – Dec 31, 2020
	HRK '000	HRK '000	HRK '000	HRK '000
Balance as of 1 January	4,582	3,355	4,499	3,283
Net (release)/increase of loss allowances	(29)	1,193	(36)	1,182
<i>Total recognised through Income Statement (Note 10)</i>	<i>(29)</i>	<i>1,193</i>	<i>(36)</i>	<i>1,182</i>
Net foreign exchange gain/loss on loss allowances	(8)	34	(8)	34
Balance at the end of the reporting period	4,545	4,582	4,455	4,499

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

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

The following text contains investment breakdown:

	Date of issue	Date of maturity	Interest rate (%)	31 December 2021 HRK '000	Group 31 December 2020 HRK '000	31 December 2021 HRK '000	Bank 31 December 2020 HRK '000	
Listed debt instruments:								
Debt instruments:								
<i>Bonds of the Republic of Croatia with a currency clause:</i>								
	RHMF-O-227E	22.7.2011	22.7.2022	6.5	148,536	157,527	148,536	157,527
	RHMF-O-247E	10.7.2013	10.7.2024	5.75	48,638	17,857	43,668	12,608
	RHMF-O222E	5.2.2019	5.2.2022	0.5	15,032	15,149	15,032	15,149
<i>Bonds of the Republic of Croatia in foreign currency:</i>								
	XS1117298916	11.3.2015	11.3.2025	3.0	312,397	321,176	312,397	321,176
	XS1843434876	19.6.2019	19.10.2029	1.125	15,301	15,829	15,301	15,829
	XS1028953989	17.06.2020	17.06.2031	1.500	54,241	56,627	54,241	56,627
<i>Bonds of the Republic of Croatia in HRK:</i>								
	RHMF-O-257A	9.7.2015	9.7.2025	4.5	9,648	9,982	-	-
	RHMF-O-26CA	14.12.2015	14.12.2026	4.25	45,344	46,380	35,815	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	70,165	71,663	70,165	71,663
	RHMF-O-282A	7.2.2017	7.2.2028	2.875	13,583	13,786	11,422	11,591
	RHMF-O-23BA	27.11.2017	27.11.2023	1.75	508,648	462,464	508,648	462,464
	RHMF-O-297A	9.7.2018	9.7.2029	2.38	3,456	3,445	-	-
	RHMF-O-34BA	27.11.2019	27.11.2034	1.00	15,743	7,975	-	-
	RHMF-O-403E	3.3.2020	3.3.2040	1.25	8,500	9,092	-	-
	RHMF-O-253A	3.3.2020	3.3.2025	0.25	80,082	79,526	80,082	79,526
	RHMF-O-24BA	27.11.2019	27.11.2024	0.25	9,667	9,622	9,667	9,622
<i>Corporate bonds in HRK:</i>								
	JDGL-O-24XA	18.12.2019	18.12.2024	1.75	1,015	977	-	-
	HRATGRO25CA5	11.12.2020	11.12.2025	0.88	1,378	1,378	-	-
	Treasury bills in HRK up to 364 days			0.0000	1,400,000	1,009,812	1,400,000	1,009,812
	Treasury bills with a currency clause up to 364 days			0.0000	-	527,583	-	527,583
	Treasury bills in foreign currency up to 364 days			0.0000	150,344	-	150,344	-
	Accrued interest				15,620	17,663	15,194	17,219
					2,927,338	3,076,794	2,870,512	3,024,356
Unlisted debt instruments:								
<i>Corporate bonds with a currency clause:</i>								
	LNGU-O-31AE	24.7.2015	15.10.2031	4.5	532	564	532	564
<i>Bonds of foreign corporate in foreign currency</i>								
	Fortenova Group TopCo B.V.	1.4.2019	1.4.2029	2.5	1,397	1,307	1,397	1,307
	Accrued interest				247	391	247	391
					2,176	2,262	2,176	2,262
Equity instruments:								
<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				42,971	26,665	42,971	26,665
					43,016	26,708	43,016	26,708
Total					2,972,530	3,105,764	2,915,704	3,053,326

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

18. Investments in subsidiaries

As at 31 December 2021, the Bank's subsidiaries are as follows:

Consolidated company	Activity	Ownership 31 December 2021	Ownership 31 December 2020	Investment 31 December 2021	Investment 31 December 2020
Direct share					
Hrvatsko kreditno osiguranje d.d. Zagreb, Republic of Croatia	Providing insurance for company's foreign and domestic short-term receivables regarding shipments of goods and services	100%	100%	36,124	36,124
Total				36,124	36,124

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

19. Investments in associates

	31 December 2021 HRK '000	Group 31 December 2020 HRK '000	31 December 2021 HRK '000	Bank 31 December 2020 HRK '000
Investments in associates	-	6,000	-	6,000
Value adjustments	-	(6,000)	-	(6,000)
	-	-	-	-

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

Line of business	% ownership in 2021	% ownership in 2020
Pounje d.d., Hrvatska Kostajnica Textile industry – clothes production	-	11.15%

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

Pursuant to the Decision of the Management Board of the Bank of 2 October 2020 on the sale of 11.15% of shares in the capital of company Pounje trikotaža d.d., Hrvatska Kostajnica in the ownership of HBOR through a public tender procedure, the shares were transferred pursuant to the Business Share Transfer Agreement of 20 January 2021. The payment was made by the acquirer of shares and shares were derecognised from HBOR's accounts.

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

	Jan 1 – Dec 31, 2021 HRK '000	Group Jan 1 – Dec 31, 2020 HRK '000	Jan 1 – Dec 31, 2021 HRK '000	Bank Jan 1 – Dec 31, 2020 HRK '000
Balance as of 1 January	6,000	12,000	6,000	12,000
Derecognition against provisions formed in previous years	(6,000)	(6,000)	(6,000)	(6,000)
Balance as at 31 December	-	6,000	-	6,000

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

20. Property, plant and equipment and intangible assets

Group	Buildings	Computers	Furniture, equipment and vehicles	Property, plant and equipment and intangible assets not ready for use	Total property, plant and equipment	Intangible assets	Total
31 December 2021							
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Cost							
At 31 December 2020	78,020	10,037	13,788	49	101,894	37,117	139,011
Additions	-	93	374	6,083	6,550	23	6,573
Transfer from assets not yet ready for use	-	3,919	40	(6,077)	(2,118)	2,118	-
Disposals and write-offs	-	(198)	(1,273)	-	(1,471)	(3,337)	(4,808)
Reclassification (+/-)	-	-	-	-	-	1	1
At 31 December 2021	78,020	13,851	12,929	55	104,855	35,922	140,777
Accumulated depreciation and write-off							
At 31 December 2020	40,955	9,531	11,466	-	61,952	30,611	92,563
Depreciation for 2021	4,016	2,192	599	-	6,807	2,299	9,106
Disposals and write-offs	-	(198)	(1,273)	-	(1,471)	(3,337)	(4,808)
Reclassification (+/-)	-	-	(21)	-	(21)	-	(21)
At 31 December 2021	44,971	11,525	10,771	-	67,267	29,573	96,840
Net book value at 31 December 2021	33,049	2,326	2,158	55	37,588	6,349	43,937
Net book value at 31 December 2020	37,065	506	2,322	49	39,942	6,506	46,448

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

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

Group	Buildings	Computers	Furniture, equipment and vehicles	Property, plant and equipment and intangible assets not ready for use	Total property, plant and equipment	Intangible assets	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
31 December 2020							
Cost							
At 01 January 2020	78,195	9,702	14,766	2,149	104,812	31,465	136,277
Additions	-	100	13	5,951	6,064	29	6,093
Transfer from assets not yet ready for use	-	305	2,123	(8,051)	(5,623)	5,623	-
Returned to use	-	61	112	-	173	-	173
Transfer from advance payments	-	-	-	-	-	-	-
Disposals and write-offs	-	(131)	(3,226)	-	(3,357)	-	(3,357)
Reclassification (+/-)	(175)	-	-	-	(175)	-	(175)
At 31 December 2020	78,020	10,037	13,788	49	101,894	37,117	139,011
Accumulated depreciation and write-off							
At 01 January 2020	36,892	8,790	13,576	-	59,258	28,738	87,996
Depreciation for 2020	4,020	810	514	-	5,344	1,873	7,217
Returned to use	-	61	112	-	173	-	173
Disposals and write-offs	-	(130)	(2,736)	-	(2,866)	-	(2,866)
Reclassification (+/-)	43	-	-	-	43	-	43
At 31 December 2020	40,955	9,531	11,466	-	61,952	30,611	92,563
Net book value at 31 December 2020	37,065	506	2,322	49	39,942	6,506	46,448
Net book value at 01 January 2020	41,303	912	1,190	2,149	45,554	2,727	48,281

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

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

Bank	Buildings	Computers	Furniture, equipment and vehicles	Property, plant and equipment and intangible assets not ready for use	Total property, plant and equipment	Intangible assets	Total
31 December 2021	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Cost							
At 31 December 2020	77,102	9,480	13,547	49	100,178	36,191	136,369
Additions	-	-	-	5,912	5,912	-	5,912
Transfer from assets not ready for use	-	3,919	40	(5,906)	(1,947)	1,947	-
Disposals and write-offs	-	(198)	(1,267)	-	(1,465)	(3,337)	(4,802)
At 31 December 2021	77,102	13,201	12,320	55	102,678	34,801	137,479
Accumulated depreciation and write-off							
At 31 December 2020	40,528	9,051	11,251	-	60,830	29,947	90,777
Depreciation for 2021	3,855	2,122	573	-	6,550	2,280	8,830
Disposals and write-offs	-	(198)	(1,267)	-	(1,465)	(3,337)	(4,802)
At 31 December 2021	44,383	10,975	10,557	-	65,915	28,890	94,805
Net book value at 31 December 2021	32,719	2,226	1,763	55	36,763	5,911	42,674
Net book value at 31 December 2020	36,574	429	2,296	49	39,348	6,244	45,592

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

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

Bank	Buildings	Computers	Furniture, equipment and vehicles	Property, plant and equipment and intangible assets not ready for use	Total property, plant and equipment	Intangible assets	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
31 December 2020							
Cost							
At 01 January 2020	77,102	9,246	14,601	2,148	103,097	30,681	133,778
Additions	-	-	-	5,838	5,838	-	5,838
Transfer from assets not ready for use	-	304	2,123	(7,937)	(5,510)	5,510	-
Returned to use	-	61	112	-	173	-	173
Disposals and write-offs	-	(131)	(3,289)	-	(3,420)	-	(3,420)
At 31 December 2020	77,102	9,480	13,547	49	100,178	36,191	136,369
Accumulated depreciation and write-off							
At 01 January 2020	36,673	8,359	13,350	-	58,382	28,087	86,469
Depreciation for 2020	3,855	761	514	-	5,130	1,860	6,990
Returned to use	-	61	112	-	173	-	173
Disposals and write-offs	-	(130)	(2,725)	-	(2,855)	-	(2,855)
At 31 December 2020	40,528	9,051	11,251	-	60,830	29,947	90,777
Net book value at 31 December 2020	36,574	429	2,296	49	39,348	6,244	45,592
Net book value at 01 January 2020	40,429	887	1,251	2,148	44,715	2,594	47,309

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

21. Foreclosed assets

	31 December 2021 HRK '000	Group and Bank 31 December 2020 HRK '000
Foreclosed assets, net	21,369	25,222
	21,369	25,222

In 2021, acquisition of property took place with present value in the amount of HRK 8,185 thousand, acquisition value of HRK 8,508 thousand and provisions of HRK 323 thousand, and relates to land plot in the amount of HRK 1,900 thousand, acquisition value of HRK 2,074 thousand and provisions of HRK 174 thousand, buildings in the amount of HRK 4,717 thousand, acquisition value of HRK 4,866 thousand and provisions of HRK 149 thousand and apartments in the amount of HRK 1,568 thousand, acquisition value of HRK 1,568 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 of HRK 160 thousand 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 2021 amounted to HRK 12,410 thousand.

In 2021, sale of foreclosed assets took place with present value in the amount of HRK 10,156 thousand, acquisition value and provisions of HRK 24,218 thousand and provisions of HRK 14,062 thousand, and relates to land plot in the amount of HRK 486 thousand, buildings in the amount of HRK 2,886 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 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 in the amount of HRK 419 thousand).

In 2021, foreclosed assets was transferred to lease on the item Investments in property in the amount of HRK 2,757 thousand (2020: HRK 1,435 thousand), which is presented under Other assets due to immaterial significance. In 2021, this property was depreciated in the amount of HRK 133 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 29,951 thousand.

Adjustment increase amount for the Group and the Bank that has an effect on the profit or loss stood at HRK 750 thousand in 2021 (in 2020: increase of HRK 582 thousand).

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

22. Other assets

	Group			Bank
	31 December	31 December	31 December	31 December
	2021	2020	2021	2020
	HRK '000	HRK '000	HRK '000	HRK '000
Fees receivable	25,787	28,052	25,787	28,052
Other receivables	10,609	11,058	10,609	11,058
Prepaid expenses	3,344	2,315	3,018	2,115
Accrued income	22,923	17,684	22,921	17,685
Premium receivables	1,797	1,718	-	-
Receivables for reinsurance commissions	645	854	-	-
Receivables for risk assessment fees	324	350	-	-
Leased assets	801	2,867	801	2,828
Other assets	3,158	1,778	3,055	1,740
	69,388	66,676	66,191	63,478
Loss allowances	(31,851)	(34,536)	(31,697)	(34,396)
	37,537	32,140	34,494	29,082

Lease assets are recognised in accordance with the application of the IFRS 16 and depreciation during the year stood at HRK 2,065 thousand for the Group and HRK 2,027 thousand for the Bank.

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

31 December 2021	Group										Bank
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Total
	HRK '000										
Gross amount	6,117	16	32,728	301	39,162	3,351	16	32,728	301	36,396	36,396
Loss allowances	(179)	(4)	(31,418)	(250)	(31,851)	(25)	(4)	(31,418)	(250)	(31,697)	(31,697)
Balance as of 31 December 2021	5,938	12	1,310	51	7,311	3,326	12	1,310	51	4,699	4,699
	<hr/>										
31 December 2020	Group										Bank
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Total
	HRK '000										
Gross amount	6,328	2	35,667	35	42,032	3,406	2	35,667	35	39,110	39,110
Loss allowances	(171)	(1)	(34,359)	(5)	(34,536)	(31)	(1)	(34,359)	(5)	(34,396)	(34,396)
Balance as of 31 December 2020	6,157	1	1,308	30	7,496	3,375	1	1,308	30	4,714	4,714

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

22. Other assets (continued)

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

	31 December 2021 HRK '000	Group 31 December 2020 HRK '000	31 December 2021 HRK '000	Bank 31 December 2020 HRK '000
Fees receivable	25,787	28,052	25,787	28,052
Other receivables	10,609	11,058	10,609	11,058
Premium receivables	1,797	1,718	-	-
Receivables for reinsurance	645	854	-	-
Receivables for risk assessment fees	324	350	-	-
	<u>39,162</u>	<u>42,032</u>	<u>36,396</u>	<u>39,110</u>
Loss allowance	(31,851)	(34,536)	(31,697)	(34,396)
Subtotal – assets exposed to credit risk	7,311	7,496	4,699	4,714

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

	Jan 1 - Dec 31, 2021 HRK '000	Group Jan 1 - Dec 31, 2020 HRK '000	Jan 1 - Dec 31, 2021 HRK '000	Bank Jan 1 - Dec 31, 2020 HRK '000
Balance as of 1 January	34,536	35,570	34,396	35,436
Net (release) of loss allowances on other assets	(2,542)	(1,032)	(2,551)	(1,001)
<i>Total recognised through Income statement (Note 10)</i>	<u>(2,542)</u>	<u>(1,032)</u>	<u>(2,551)</u>	<u>(1,001)</u>
Write-offs	(14)	-	(2)	-
Transfer to off-balance sheet records	(149)	-	(149)	-
Acquisition of immovable property	-	(2)	-	(2)
Net foreign exchange gain/loss on loss allowances	3	(37)	3	(37)
Other adjustments	17	37	-	-
Balance at the end of the reporting period	31,851	34,536	31,697	34,396

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

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

23. Deposits from customers

	31 December 2021 HRK '000	Group and Bank 31 December 2020 HRK '000
Bank deposits	417,163	626,261
Foreign currency regular accounts of companies	6	6
Foreign currency account of the Ministry of Finance of the Republic of Croatia	96,666	9,114
Foreign currency special purpose accounts of the companies	58,567	25,657
Foreign currency special accounts of foreign financial institutions	3,059	5,685
State institutions' deposits	341,810	279,208
Other deposits	43,270	28,462
	960,541	974,393

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

The foreign currency account of the Ministry of Finance of the Republic of Croatia relates to the Export Insurance Guarantee Fund comprising of reinsurance premiums paid for export insurance operations of HRK 96,666 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 31 December 2021. amounted to HRK 3,059 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 year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

24. Borrowings

	31 December 2021	Group and Bank 31 December 2020
	HRK '000	HRK '000
Balance as of 1 January	16,852,094	14,385,635
New borrowings	1,668,482	4,994,515
Repayments	(2,391,147)	(2,664,047)
Net foreign exchange gain/loss	(25,429)	135,991
	<u>16,104,000</u>	<u>16,852,094</u>
Accrued interest	34,657	40,720
Deferred fees	(23,420)	(28,879)
	<u>16,115,237</u>	<u>16,863,935</u>

The bank is subject to various financial clauses from the Contract. During 2021 and as of 31 December 2021 the Bank was in compliance with all required financial clauses from the Contract.

The financial clauses contained in the Agreement are linked with financial information on the level of capital adequacy ratio and the amount of total capital.

Borrowing liabilities of the Group and HBOR relate to one foreign commercial bank in the amount of EUR 50.0 million maturing on 22 May 2022, and there are no additional contingent borrowing liabilities of the Group and HBOR.

	31 December 2021	Group and Bank 31 December 2020
	HRK '000	HRK '000
Borrowings from foreign financial institutions	14,604,000	15,352,094
Borrowings from domestic institutions	1,500,000	1,500,000
	<u>16,104,000</u>	<u>16,852,094</u>
Accrued interest	34,657	40,720
Deferred recognition of fees	(23,420)	(28,879)
	<u>16,115,237</u>	<u>16,863,935</u>

(a) Borrowings from foreign financial institutions relate to long-term loans from special financial institutions, mainly the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB).

(b) Borrowings from domestic institutions relate to a loan from the Ministry of Finance of the Republic of Croatia.

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

25. Provisions for guarantees, commitments and other liabilities

	Group		Bank	
	31 December	31 December	31 December	31 December
	2021	2020	2021	2020
	HRK '000	HRK '000	HRK '000	HRK '000
Provisions for guarantees and commitments	129,587	45,556	129,587	45,556
Provisions for other liabilities	60,973	62,500	60,716	62,240
	190,560	108,056	190,303	107,796

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

	Group		Bank	
	Jan 1 - Dec 31,			
	2021	2020	2021	2020
	HRK '000	HRK '000	HRK '000	HRK '000
Balance as of 1 January	45,556	57,716	45,556	57,716
Net increase of loss allowances on guarantees	74,799	2,184	74,799	2,184
<i>Total recognised through Income Statement (Note 10)</i>	<i>74,799</i>	<i>2,184</i>	<i>74,799</i>	<i>2,184</i>
Net increase/(release) of loss allowances on commitments	7,503	(13,998)	7,503	(13,998)
Total recognised through Income Statement (Note 10)	7,503	(13,998)	7,503	(13,998)
Net foreign exchange on loss allowances	1,729	(346)	1,729	(346)
Balance at the end of the reporting period - Provisions for guarantees and commitments	129,587	45,556	129,587	45,556
Balance as of 1 January	62,500	63,064	62,240	62,915
Net (release) of loss allowances on other liabilities	(2,358)	(4,230)	(2,355)	(4,341)
<i>Total recognised through Income Statement (Note 10)</i>	<i>(2,358)</i>	<i>(4,230)</i>	<i>(2,355)</i>	<i>(4,341)</i>
Unrealised actuarial gains/(losses)	831	3,666	831	3,666
Balance at the end of the reporting period - Provisions for other liabilities	60,973	62,500	60,716	62,240

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

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

Out of the total provisions for guarantees and commitments, the amount of HRK 2,695 thousand relates to financial institutions (31 December 2020: HRK 8,492 thousand), HRK 125,172 thousand relates to domestic companies (31 December 2020: HRK 35,683 thousand), HRK 1,371 thousand relates to the public sector (31 December 2020: HRK 1,286 thousand), HRK 239 thousand relates to non-profit institutions (31 December 2020: HRK 0 thousand), HRK 110 thousand relates to other (31 December 2020: HRK 95 thousand).

In 2021, provisions for other liabilities for the Group totalled HRK 60,973 thousand (31 December 2020: HRK 62,500 thousand) and for the Bank stood at HRK 60,716 thousand (31 December 2020: HRK 62,240 thousand). The total amount of provisions for other liabilities was comprised of HRK 8,204 thousand for court proceedings initiated against the Bank for the Group and for the Bank (31 December 2020: HRK 7,676 thousand), HRK 38,304 thousand for liabilities for the Group and for the Bank based on benefits defined in accordance with IAS 19 Employee Benefits (31 December 2020: HRK 36,000 thousand), and in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets HRK 14,465 thousand for provisions for other liabilities for the Group (31 December 2020: HRK 18,824 thousand) and HRK 14,208 thousand for the Bank (31 December 2020: HRK 18,564 thousand).

The latest actuarial assessment of present value of liabilities based on defined benefits as at 31 December 2021 was performed by a certified actuary. The model took into account mortality, fluctuation of employees, growth rate in defined benefits and discount rate, and the calculations for every employee considered age, gender, years of service, expected mortality and discount rate, i.e. the long-run sustainable yield rate on bonds of the Republic of Croatia.

The applied discount rate that represents the yield rate on bonds sustainable in the long run is 1.25%, whereas it stood at 1.50% in the previous year.

Unrealised actuarial gains/(losses) arising from the calculation of provisions are stated within the framework of other comprehensive income so that net assets or liability may reflect the entire value of deficit or surplus planned.

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

26. Other liabilities

	31 December 2021 HRK '000	Group 31 December 2020 HRK '000	31 December 2021 HRK '000	Bank 31 December 2020 HRK '000
Liabilities in respect of subsidized interest (a)	174,027	139,722	174,027	139,722
Deferred recognition of interest income (b)	186,159	198,715	186,159	198,715
Accrued salaries	8,613	8,382	8,397	8,146
Liabilities to suppliers	2,180	2,090	2,065	2,017
Liabilities for prepaid receivables	4,921	24,342	4,921	24,342
Deferrable premium	5,219	3,650	-	-
Provisions for claims	6,815	5,584	-	-
Provisions for return premiums	1,454	1,143	-	-
Liabilities to re-insurers	2,443	3,277	-	-
Deferred tax liabilities	401	819	-	-
Corporate income tax-current liability	208	151	-	-
Lease liabilities	1,148	3,453	800	2,893
Other liabilities	41,651	5,065	39,809	3,777
	435,239	396,393	416,178	379,612

(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 168,750 thousand in respect of the Programme of Preferential Financing through HBOR's Loan Programmes (31 December 2020: HRK 131,273 thousand),
- HRK 3,468 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 309 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).
- Subsidising of interest for the purchase of mobile homes for business entities in the tourism industry in the amount of HRK 1,500 thousand (31 December 2020: HRK 0 thousand).

(b) Deferred recognition of interest income of HRK 186,159 thousand (31 December 2020: HRK 198,715 162,937 thousand) consists of state subsidies for interest in respect of loans which are provided and drawn down by final borrowers at lower interest rates but are not yet in repayment stage, amounting to HRK 58,042 thousand (31 December 2020: HRK 74,659 thousand), and in respect of those already in repayment stage amounting to HRK 128,117 thousand (31 December 2020: HRK 124,056 thousand) (see Note 4.1. L. Government grants).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

27. Founder's capital

Under the HBOR Act, the prescribed founder's capital should amount to HRK 7,000,000 thousand, paid from the State Budget and from other sources as specified by separate laws.

The schedule of annual amounts of payment and the time schedule of payments out of the State Budget into the capital are not set in advance, but are determined by the Croatian Parliament as part of the process of adoption of the State Budget of the Republic of Croatia.

Within its Accounting policies, the Group has set out its objectives of capital management, category of capital managed by the Bank as well as measuring and assessing the policies for capital management. Capital management is described and presented in Note 35.

Founder's capital of the subsidiary Hrvatsko kreditno osiguranje d.d. amounts to HRK 37,500 thousand and is 100% owned by the Bank, and the founder's capital of the company Poslovni info servis d.o.o. amounts to HRK 300 thousand and is 100% owned by Hrvatsko kreditno osiguranje d.d.. The capital of both companies is subscribed and paid in full.

28. Guarantee fund

Group and Bank	HRK '000
Balance as of 1 January 2020	12,186
Net foreign exchange	155
Balance as of 31 December 2020	12,341
Net foreign exchange	(32)
Balance as of 31 December 2021	12,309

The Guarantee fund of HRK 12,309 thousand and HRK 12,341 thousand as of 31 December 2021 and 2020 respectively, relates to funds of the guarantee fund from Deutsche Investitions- und Entwicklungsgesellschaft (DEG) in respect of a financial contribution (granted funds) for the account of the German Government, which are used for covering contingent losses on guarantees issued for loans granted under the Programme for financing business start-ups in Croatia. The funds of the Guarantee fund are unconditionally contributed and have no maturity. The funds of the Guarantee fund give the Government of the Federal Republic of Germany neither controlling rights nor a right to a share of the operating results of the Group.

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

29. Guarantees and commitments

In its regular activities, the Group contracts various commitments and contingent liabilities. The purpose of these instruments is to ensure that the funds are available to a customer when required.

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

Group and Bank

	31 December 2021 HRK '000	31 December 2020 HRK '000
Guarantees issued in HRK	170,555	126,469
Guarantees issued in foreign currency	325,103	331,815
Undrawn loans	3,492,038	4,779,853
Open letters of credit in foreign currency	-	1,472
EIF – subscribed, not called up capital	78,179	48,236
EIF CROGIP Contracted Liability	312,489	287,683
EIF FRC2 Contracted Liability	6,243	9,487
	<u>4,384,607</u>	<u>5,585,015</u>
Provisions for guarantees and commitments	<u>(129,587)</u>	<u>(45,556)</u>
	<u>4,255,020</u>	<u>5,539,459</u>

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

	Group and Bank					
	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Without stage HRK '000	Total HRK '000
31 December 2021						
Gross amount	3,311,893	302,747	326,551	46,505	-	3,987,696
Loss allowances	(10,652)	(26,256)	(82,779)	(9,900)	-	(129,587)
Balance as of 31 December 2021	<u>3,301,241</u>	<u>276,491</u>	<u>243,772</u>	<u>36,605</u>	<u>-</u>	<u>3,858,109</u>

	Group and Bank					
	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Without stage HRK '000	Total HRK '000
31 December 2020						
Gross amount	4,644,976	153,026	338,419	101,716	1,472	5,239,609
Loss allowances	(8,659)	(11,523)	(17,525)	(7,849)	-	(45,556)
Balance as of 31 December 2020	<u>4,636,317</u>	<u>141,503</u>	<u>320,894</u>	<u>93,867</u>	<u>1,472</u>	<u>5,194,053</u>

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

29. 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 year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

30. Managed funds for and on behalf of third parties

The Group manages funds on behalf of and for the account of the Ministry of Finance, the Ministry of the Economy and Sustainable Development, the Ministry of the Sea, Transport and Infrastructure, the Ministry of Agriculture, the Ministry of Regional Development and EU Funds, the Ministry of Foreign and European Affairs, the Ministry of Tourism and Sport, the company Vodovod i kanalizacija d.o.o., Split, the Croatian Agency for SMEs, Innovations and Investments (“HAMAG-BICRO”) and commercial banks, that are mainly used for various reconstruction and development programmes. These assets are separated from the Group’s assets. The income and expense relating to these transactions are charged to the principal, and the Group does not have any other liabilities. The Group charges a fee for part of the services and part of the services are performed free of charge depending on the contract with the customer and taking into account that the stated amounts are insignificant for the Group.

Agency business funds per individual programmes amount to:

Group and Bank

Program	31 December	31 December
	2021	2020
	HRK '000	HRK '000
Development and Reconstruction of Rural Housing	19,127	19,656
Employment of Former Soldiers	284,221	279,625
Municipal Environmental Infrastructure Investment Program – MEIP	-	868,298
Collection of receivables under HAMAG-BICRO guarantees	105	121
Insurance of export transactions	628,852	485,921
Programme of Preferential Financing through HBOR’s Loan Programmes - Ministry of Finance	168,750	131,273
Programme for Regional Development of the Republic of Croatia - loans	2,227	3,504
Renewable Energy Resources Project	1,368	2,709
VIK – EKO account A – dedicated water charge	744,298	718,343
VIK – EKO account B – VAT	157,018	156,729
Financing the Establishment of Fishing Infrastructure – Ministry of the Sea, Transport and Infrastructure	46,665	46,665
Micro-Loans with EU Support – commercial banks	797	717
Transactions related to investments in the Economic Co-operation Funds ⁴	53,681	214,851
ESIF – Growth and Expansion Loans	847,096	845,578
ESIF - Energy Efficiency in Public Sector Buildings	208,118	202,743
ESIF - Loans for Public Lighting	120,444	76,613
Investment loans for rural development	11,917	139,970
Working Capital COVID-19 Measure for SMEs in tourism industry	3,468	3,734
Working Capital COVID-19 Measure for entrepreneurs in wood processing and furniture production industry	309	4,715
Working Capital COVID-19 Measure for entrepreneurs in wood processing and furniture production industry - insurance premium subsidy	-	8,635
Working Capital for rural development	259,159	71,291
Ministry of Tourism and Sport, subsidised interest for the purchase of mobile homes for business entities in the tourism industry	1,500	-
Investment in the Three Seas Initiative Investment Fund ²	54,269	-
	3,613,389	4,281,691

⁴ The fair value of net assets value of the Economic Co-operation Funds and the Three Seas Initiative Investment Fund in 2021 is recognised on the basis of the latest available data and does not represent the final fair value, whereas, in 2020, the amount was recognised in accordance with the audited financial statements.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

31. Related-party transactions

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

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

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

As of 31 December 2021 and 31 December 2020 balances arising from transactions with related parties, including the Bank's key management personnel, include the following:

a) Related-party transactions

Group	Assets	Liabilities	Assets	Liabilities
	31 December 2021	31 December 2021	31 December 2020	31 December 2020
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	3,348,080	1,853,263	3,560,948	1,775,799
Government funds, executive authorities and agencies	4,617,620	257,050	3,424,357	169,844
State-owned companies	914,416	59	1,535,839	1,322
Associates	7	-	7	5
Key management personnel	3,393	2,701	253	2,204
Total	8,883,516	2,113,073	8,521,404	1,949,174

Group	Income	Expense	Income	Expense
	Jan 1 – Dec 31 2021	Jan 1 – Dec 31 2021	Jan 1 – Dec 31 2020	Jan 1 – Dec 31 2020
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	50,497	28,730	53,985	10,656
Government funds, executive authorities and agencies	89,571	1,044	93,322	4,510
State-owned companies	45,248	49,542	89,269	16,186
Associates	26	1	1,644	-
Key management personnel	3,738	8,976	61	7,954
Total	189,080	88,293	238,281	39,306

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

31. Related-party transactions (continued)

a) Related-party transactions (continued)

Bank	Assets		Liabilities	
	31 December 2021	31 December 2021	31 December 2020	31 December 2020
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	3,348,080	1,853,263	3,560,948	1,775,799
Government funds, executive authorities and agencies	4,563,167	257,009	3,371,905	169,665
State-owned companies	914,412	54	1,535,832	1,319
Subsidiary companies	36,124	-	36,124	-
Associates	7	-	7	5
Key management personnel	3,393	2,585	253	2,096
Total	8,865,183	2,112,911	8,505,069	1,948,884

Bank	Income		Expense	
	Jan 1 – Dec 31 2021	Jan 1 – Dec 31 2021	Jan 1 – Dec 31 2020	Jan 1 – Dec 31 2020
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	50,497	28,730	53,985	10,656
Government funds, executive authorities and agencies	88,324	1,003	92,180	4,482
State-owned companies	45,248	49,484	89,269	16,132
Associates	26	1	1,644	-
Key management personnel	3,738	7,340	60	6,491
Total	187,833	86,558	237,138	37,761

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.

31. Related-party transactions (continued)

b) Collateral received

	31 December	Group	31 December	Bank
	2021	31 December	2021	31 December
	HRK '000	2020	HRK '000	2020
	HRK '000	HRK '000	HRK '000	HRK '000
The Republic of Croatia	5,243,064	5,150,786	5,242,142	5,148,197
State agencies	590,684	608,048	590,684	608,048
Total	5,833,748	5,758,834	5,832,826	5,756,245

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

Pursuant to the Quota Reinsurance Contract between HBOR, in the name and for the account of the Republic of Croatia, and HKO d.d., reinsurance is carried out, i.e. cover is provided for a proportional part (quota reinsurance) of political and commercial risks under export loans and receivables arising from the export of goods and services. The Reinsurer covers all non-marketable (non-market) risks assumed by the Insurer, i.e. Croatian Credit Insurance, joint stock insurance company, in the range from 15% to 90% of the insured amount.

c) Salaries of key management personnel

Key members of the Group's and the Bank's management include members of the Management Board, senior executive directors, head of the Management Board Office, executive directors, assistant director, advisors to the Management Board and an authorised agent (proxy).

Salaries include compensation paid for regular work, annual vacation, national holidays, paid leave, sick leave, benefits payable for past service and payments under contractual agreements. In 2021, salaries for the Group amounted to HRK 8,891 thousand (31 December 2020: HRK 7,778 thousand), and for the Bank HRK 7,337 thousand (31 December 2020: HRK 6,413 thousand).

Remuneration for the work of the members of the Supervisory Board in 2021 amounted to HRK 85 thousand for the Group (31 December 2020: HRK 176 thousand) and for the Bank HRK 3 thousand (31 December 2020: HRK 78 thousand) and it relates to the members of supervisory boards at associates and subsidiaries who were appointed by HBOR.

32. 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 corresponding 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, methodologies, instructions and systems of limits, controls and decisions/conclusions of the Supervisory Board, the Management Board and the risk management committees.

The Bank implements sensitivity analyses and scenario analyses, provided that one or several risk factors are changed in regular or stressful circumstances, and HBOR's bodies in charge are informed of the respective results. The systems of pro-active risk management are continuously developed for the purpose of reducing possible future risks.

32.1. Overview of the most important risks

Credit risk

The Bank 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 Bank has established a system of limits and early warning signals, monitors and controls limit utilisation, maintains the adequate level of liquidity reserve, continuously monitors current and planned liquidity, ensures HRK and foreign currency funds necessary for timely settlement of liabilities and for disbursements of approved loans and planned loan approvals. In terms of liquidity risk management, the maturity matching of existing and planned placements and their sources is strived to be achieved. The Bank does not hold deposits of citizens and is therefore not exposed to wide daily fluctuations in liquidity.

32. Risk management (continued)

32.1. Overview of the most important risks (continued)

Liquidity risk (continued)

The Bank 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 Bank'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 Bank 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 Bank to the changes in interest rates under regular and stress conditions. A detailed breakdown of interest rates is done per currency, type and level of interest rate, and projections of developments in average weighted interest rates for sources 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.

For the purposes of measuring exposure to currency risk, the open foreign currency position is monitored. In addition to the daily monitoring of the open foreign currency position and the projections of its developments, for the purposes of assessing and measuring the currency risk, the risk value is calculated, and reports are regularly submitted 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

HBOR has established a framework for the management of operational risk that is aligned with the regulations prescribed by the Croatian National Bank applicable to the operations of the Bank as the special financial institution and with the good banking practices in the area of risk management, and that was introduced in 2012.

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.1. 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 Head of IT System Security function is in charge of monitoring the security of the IT system. Within this function, a system for the management of HBOR's 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. Crisis events were recorded in 2020 in the operational risk database, where the financial effects of these events are continuously updated.

In order to ensure business continuity due to the inability to use the main business premises of the Bank damaged in the earthquake and to comply with pandemic protection measures, the employees were allowed to continue working from home.

In addition, in 2021, HBOR's exposure to operational risk was significantly affected by the Euro introduction project aimed at the timely harmonisation of HBOR with the National Plan for the Changeover from the Croatian Kuna to the Euro, the Act on the Introduction of the Euro as the Official Currency in the Republic of Croatia and other legislation to which HBOR is subject. In order to ensure the meeting of deadlines and the continuity and integrity of operations after the changeover to the Euro as the official currency, HBOR focused on the priority and availability of resources for the timely implementation of this project.

Outsourcing risk

The HBOR 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 HBOR 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 in 2021 to an increase in the risk of externalisation, and it was established that there were no interruptions of key externalised services („core“ banking applications and data centre) caused by the crisis events.

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.2. 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 three 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.

The Risk Management Division

The Risk Management Division is a permanent risk control function, which is functionally and organisationally independent of the business processes and activities in which the risk occurs or is monitored and supervised. It is responsible for controlling, determining, measuring, assessing and supervising the risks to which HBOR is exposed or could be exposed in its business operations.

The Risk Management Division carries out its role by performing risk analyses and evaluations or measurements, developing risk management ordinances, 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.

32. Risk management (continued)

32.2. Strategy and risk management systems (continued)

Risk measurement and reporting systems

When assessing or measuring risk, historical data, business plans, current and expected market conditions and the specific characteristics of the Bank as a special financial institution are taken into account.

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, 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.

32.3. Credit risk

The Bank 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 Bank'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).

In addition to the Credit Risk Management Ordinance, methodologies have been adopted as separate internal documents intended for the assessment of operations of various client target groups.

In the case of direct financing, the Credit Risk Assessment Methodology (for gross exposures exceeding HRK 3,000 thousand) or the Credit Scoring Methodology (for gross exposures below HRK 3,000 thousand) is used to determine creditworthiness. The Credit Scoring Methodology is used to determine creditworthiness of clients that belong to the "small loan portfolio" and it contains seven scoring models:

- placements up to HRK 300 thousand to companies, crafts businesses and farmers,
- placements up to HRK 300 thousand to start-ups,
- placements from HRK 300 thousand to HRK 1,500 thousand to companies,
- placements from HRK 300 thousand to HRK 1,500 thousand to start-ups,
- placements from HRK 300 thousand to HRK 1,500 thousand to all other entrepreneurs,
- placements from HRK 1,500 thousand to HRK 3,000 thousand to companies and start-ups, and
- placements from HRK 1,500 thousand to HRK 3,000 thousand to all other entrepreneurs.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

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. gross exposures exceeding HRK 3,000 thousand. The risk assessment can be contained in the assessment of client creditworthiness, assessment of investment project success and assessment of client creditworthiness containing analysis of future operations.

Pursuant to the HBOR Act, the Bank on-lends part of its placements via commercial banks or leasing companies. The assessment of commercial banks is based on the Methodology for the Evaluation and Selection of Banks and the Methodology for the Evaluation and Selection of Foreign Banks, whereas the assessment of leasing companies is based on the Methodologies for the Evaluation and Selection of Leasing Companies. With an objective of facilitating the availability of HBOR's funds, a part of its placements is placed 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 most often come with applications for credit monitoring of development 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 organizational and technical solutions, reports and internal acts and proposes new organization regulations and implementation instructions.

Through continuous monitoring and evaluation of clients' business operations, HBOR tries to identify difficulties in their business operations in time. 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.

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.

Due to the approval of a larger number of loans in a relatively short period of time in 2020, certain activities in the existing manner and procedure of processing loan applications have been reduced that are prescribed by the Credit Risk Management Ordinance and that are covered by separate Instructions having been implemented on COVID-19 loans and loans for the areas struck by the earthquake in 2021 as well.

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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

Implemented moratoriums

In order to assess the impact of the crisis on the portfolio of its clients, the Bank reviews the operations of its clients, especially those affected by the COVID-19 crisis, who requested a moratorium or some kind of COVID-measures. According to the interpretations of the accounting authorities, the stated COVID-19 moratoriums do not automatically mean that there has been a significant increase in credit risk. The Bank assesses the performance of its clients that are in a moratorium by considering whether the difficulties faced by the clients are only of a temporary nature, in which case the approval of a moratorium did not represent a significant increase in credit risk.

32.3.1. 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 Bank, such obligations generate exposures to risks that are similar to credit risks and they are mitigated by the same procedures that are applied to loans.

32.3.2. Impairment assessment

Impairment is formed in accordance with the International Financial Reporting Standard 9, documents made by CNB applicable to HBOR and internal ordinances and methodologies regulating 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 - Purchased or originated credit impaired asset, POCl.

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

32.3.2. Impairment assessment (continued)

For the entire duration of contractual relationship, debtor's creditworthiness is assessed in order to identify possible changes in the client's (debtor's) financial position, i.e. the probability of deterioration in its creditworthiness. When establishing client's creditworthiness, the group of related entities is also taken into account due to the effect of contamination, i.e. the possibility of the transfer of risk among related entities. Creditworthiness of client is monitored through:

- Changes in financial rating of client and entities related to client,
- Criteria whose objective is to identify financial difficulties of client,
- Criteria contained in the client watch list, and
- Criteria for identification of increased credit risk.

A client is considered to duly meet its obligations if it settles all of its obligations fully (principal, interest, commissions, fees and other charges) in the amounts and within the deadlines determined in the respective contracts, where all placements and of-balance sheet liabilities of a client are considered as one.

Collateral assessment is based on the quality of collateral and the assessed value as well as expected period of collection through collateral.

32.3.2.1. 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,
- guarantee payment.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

32.3.2. Impairment (continued)

32.3.2.1. Definition of default status and exit from default status (continued)

When determining a default status, in addition to the aforementioned, the relations within a group of related entities are also considered if the default status has been established with regard to one of the debtors within the respective group of related entities that results in the spreading of the default status on other entities within the same group.

All financial instruments of client in default status are classified to Stage 3.

Placements to clients in default status due to a material delay in the payment of obligations for more than 90 days can be classified to the rehabilitated category if 150 days have lapsed from the moment of non-existence of the default status trigger. During the 150-day trial period, client must not be more than 30 days overdue in the payment of obligations in a materially significant amount.

After the lapse of 150 days, only those clients are considered to have been cured who are found not to be in financial difficulties. If there are signs of default status recurrence, the status is not changed until a genuine and permanent improvement in the credit quality of client.

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

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

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

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

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

Financial instruments of rehabilitated/recovered clients are classified into performing exposures after all conditions of the probation period have been met. All placements of clients after forbearance/restructuring are considered forborne for two years from the moment when classified as performing exposures, and in that period, they are classified as risk level 2.

All clients that were not approved concessions due to financial difficulties, and HBOR's exposure to them ceased to be non-performing, are classified as risk level 1 after the recovery.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

32.3.2. Impairment (continued)

32.3.2.2. Bank's procedure of internal rating and probability of default (PD) assessment

The approach used for the modelling of PD is based on TTC (Through-the-Cycle) migration matrices for exposures in homogenous groups of direct borrowers and others. Risk categories (bucket) have been identified, and the movements of exposures among the aforementioned categories are analysed.

Risk categories for the aforementioned exposures are defined on the basis of the days overdue and the restructured exposure status. Before the modelling of PD, the data for the preceding relevant period are collected.

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

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

On the basis of the matrices of exposure movements from category to category, a PD 12-month value is calculated. PD marginal values are calculated by further multiplication of matrices and they are used for vector creation. PD borderline value vector is the basis for the calculation of a lifelong PD. The value of a lifelong PD depends on the tenor, i.e. the remaining period until maturity of individual exposure.

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

For exposures to domestic financial institutions, owing to the fact that there is no external rating for all financial institutions in the Group portfolio, the existing internal ratings for domestic financial institutions have been mapped against the external rating, where a financial institution that has an external rating has been used as the mapping starting point, due to which the Group's internal rating has been made equal to the rating of S&P: "BB". In this way, the upper limit has been established for domestic financial institutions at the level of the government rating. Distribution of PD value for the other internal ratings is determined on the basis of the method of linear interpolation.

Ratings of external credit rating agencies are used for exposures to foreign financial institutions and, therefore, the appropriate PD value from their matrices is used, and if non-existing, the internal rating is used, i.e. the rules are applied that are identical to those applied to domestic financial institutions.

The value of 12-month PD is assessed by multiplying TTC matrix with itself. The value of lifelong PD is the cumulative value of marginal PD values or the sum of borderline PD values depending on the exposure tenor.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

32.3.2. Impairment (continued)

32.3.2.3. 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).

32.3.2.4. Loss given default

For groups of direct borrowers and others, loss at the moment of occurrence of the status of non-fulfilment of obligations (Loss Given Default, hereinafter: LGD) is estimated based on transactions after the date of occurrence of loss given default. Each transaction is discounted on the date of occurrence of loss given default by an appropriate discount rate, and the discount factor depends on the time elapsed. All increases after the date of occurrence of loss given default are cumulated with an individual exposure. The result of the mentioned calculation is the collection rate for each exposure in a homogenous group, and the total collection rate for a single homogenous group is comprised of the weighted average of collection rates of all individual exposures.

The probability of exit from the loss given default status is also taken into consideration in the calculation of LGD.

A report of external credit rating agencies is used as foundation for determining LGDs for the groups central government and local and regional government and financial institutions. In the annual reports on the occurrence of loss given default and collection status, credit rating agencies publish both historical and market rates of collection. The market rate of collection is the market price of a bond as compared to its value immediately before or at the moment of bond default. Based on market rates of collection for senior unsecured debt, issuer-weighted recovery rate is determined.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

32.3.2. Impairment assessment (continued)

32.3.2.5. Significant increase in credit risk

For the purpose of identifying an increased credit risk, changes for all clients of the Bank 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 3,000 thousand and are on the client watch list, on the next reporting date, all financial instruments of the client with increased credit risk are classified to stage 2 based on the observed criteria such as:

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

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

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

32.3.2.6. 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 3,000 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,

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

32.3.2. Impairment assessment (continued)

32.3.2.6. Grouping financial assets measured on a collective basis (continued)

- 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.

32.3.3. 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 previous experiences on credit losses, the data on earlier credit losses rates are applied to the entire portfolio of direct loans; 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 has been 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 Bank uses a large number of macroeconomic conditions, for one of which (GDP real growth rate) correlations on total PDs have been established for the entire portfolio of direct loans.

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

32.3.3. Analysis of input for ECL model within the framework of impact of macroeconomic conditions on PD (continued)

In order to determine the impact of future macroeconomic conditions on expected credit losses, by analysis based on historical data, the connection between macroeconomic conditions and PD is identified. After that, the impact of macroeconomic forecasts on PD values is estimated and the ratio is calculated, by means of which the estimated value of PD in two scenarios, an optimistic and a pessimistic one, is corrected.

32.3.4. 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%.

32.3.5. Overview of modified and restructured loans

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

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

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

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

Evidence on concession includes the following:

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

32.3.6. 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 Bank is creating a better base for repayment of loans and minimization of risk.

As of 31 December 2021, the highest credit exposure of the Group and the Bank to one debtor equalled HRK 2,102,579 thousand and of the Bank HRK 2,669,528 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.

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

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

32.3.7. 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).

Loans according to the risk-sharing models under HBOR loan programmes (primarily loans for investments and restructuring, and to a lesser extent for liquidity) are implemented in such a way that commercial banks involved in such transactions are still agents (administrative, payment and collateral agents), but HBOR conducts the usual procedure as for any other direct loan and enters, both exposures and collateral, into the business records after contracting or implementing the collateral for placements.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

32.3.7. Risk-Sharing Model (continued)

As part of measures to help the economy due to the coronavirus pandemic, it was possible to approve new liquidity loans to entrepreneurs severely affected by the crisis caused by the coronavirus pandemic under the risk-sharing model with commercial banks. Due to the short deadline for processing large number of loan applications, the current loan process prescribed by the Credit Risk Management Ordinance has been accelerated and shortened for this purpose.

Taking into account that very often HBOR does not have a direct contact with its clients, HBOR uses quarterly reports or obtains necessary information from commercial banks to monitor its clients to which it has a gross exposure of more than HRK 3,000 thousand under the procedure for direct loans.

32.3.8. 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 year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

32.3.8. Collateral and other credit enhancements (creditworthiness) (continued)

For the purpose of mitigation of credit risk and reduction of business costs, and in compliance with the Act on the Croatian Bank for Reconstruction and Development, the 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 EIF (European Investment Fund), a guarantee from the local and regional authority, a guarantee from the Republic of Croatia, etc.

The Bank has the right to verify the appraisal of the collateral value and such a confirmed appraisal is considered as the final collateral value.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

32.3.8. Collateral and other credit enhancements (creditworthiness) (continued)

Depending on the type of collateral, the credit programme, the general terms of security or the decision of an authorised body, the Bank has determined the necessary ratio of placements and collateral.

In case of the real estate, the necessary ratio of placement and estimated market value of the real estate should be 1:1.3, except in case of investments on the islands, supported areas where such ratio is 1:1.2. In case of moveable property, the necessary ratio of placement and estimated market value of moveable property should be 1:2. If a lower ratio of the collateral value than those prescribed is proposed, reasons and justifications of deviations from the prescribed ratio are explained. For direct financing of entrepreneurs' liquidity through COVID-19 loans or loans for earthquake-affected areas of Sisak-Moslavina county, cover is provided is through coverage of loans by collateral of at least 70%.

The Bank continually monitors the value of collaterals by re-estimation or confirmation/verification of the value. Monitoring of the value of mortgaged real estate is performed once a year for business real estate, and every three years for residential buildings. The Bank has formed a special organizational unit for:

- evaluation and verification of already appraised and offered collateral (real estate and movables),
- technical and technological analysis of investment projects, and
- financial supervision over the withdrawal of loan funds for the purpose of the implementation of the investment project.

In the event that it is not possible for the Bank to collect from regular operations, the Bank starts collection from the collateral at its disposal. This encompasses initiating collection from the obligatory collateral, then from first-class, unconditional collateral payable on first demand and then from the mortgage or fiduciary ownership of the real estate or movable property, including their repossession with a view to decreasing or fully settling the Bank's receivables. The Bank does not use repossessed assets for business purposes.

In the case of risk-sharing models, collateral is created by commercial banks depending on the type of the model:

- in accordance with their own internal documents and good banking practices, and, consequently, HBOR's documents and collateral ratios prescribed in them do not apply,
- or collateral is created by commercial banks and HBOR for their respective shares in the loan in accordance with their own documents, decisions and/or procedures,
- for liquidity loans to entrepreneurs that have been strongly affected by the crisis caused by the coronavirus pandemic, the same instruments taken by the bank have been accepted as collateral provided that the collateral covers at least 50% of the loan.

Write-offs

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure

The table below shows the highest net credit risk exposures in the Statement of Financial Position and in guarantees and commitments as of the reporting date, before the effect of mitigation through collateral received:

	Group		Bank	
	Highest exposure	Highest exposure	Highest exposure	Highest exposure
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	1,961,985	1,659,111	1,958,619	1,653,157
Deposits with other banks	7,500	7,337	7,500	7,337
Loans to financial institutions	7,050,143	8,842,580	7,050,143	8,842,580
Loans to other customers	15,964,376	14,796,179	15,964,376	14,796,179
Financial assets at fair value through profit or loss	16,375	2,956	16,375	2,956
Financial assets at fair value through other comprehensive income	2,929,514	3,079,056	2,872,688	3,026,618
Other assets	7,311	7,496	4,699	4,714
Total	27,937,204	28,394,715	27,874,400	28,333,541
Guarantees and commitments				
Guarantees issued in HRK	140,113	125,204	140,113	125,204
Issued guarantees in foreign currency	260,705	314,842	260,705	314,842
Open letters of credit in foreign currency	-	1,472	-	1,472
Undrawn loans	3,457,291	4,752,535	3,457,291	4,752,535
Total	3,858,109	5,194,053	3,858,109	5,194,053
Total credit risk exposure	31,795,313	33,588,768	31,732,509	33,527,594

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Group	Republic of Croatia	EU countries	Other countries	Total
31 December 2021	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	1,881,083	25,319	55,583	1,961,985
Deposits with other banks	-	7,500	-	7,500
Loans to financial institutions	7,050,143	-	-	7,050,143
Loans to other customers	15,681,740	-	282,636	15,964,376
Financial assets at fair value through profit or loss	16,375	-	-	16,375
Financial assets at fair value through other comprehensive income	2,928,045	1,469	-	2,929,514
Other assets	6,430	254	627	7,311
Total	27,563,816	34,542	338,846	27,937,204
Guarantees and commitments				
Guarantees issued in HRK	140,113	-	-	140,113
Issued guarantees in foreign currency	260,705	-	-	260,705
Undrawn loans	3,454,685	-	2,606	3,457,291
Total	3,855,503	-	2,606	3,858,109
Total credit risk exposure	31,419,319	34,542	341,452	31,795,313

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Group	Republic of Croatia	EU countries	Other countries	Total
31 December 2020	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	1,651,267	7,532	312	1,659,111
Deposits with other banks	-	7,337	-	7,337
Loans to financial institutions	8,842,580	-	-	8,842,580
Loans to other customers	14,016,403	-	779,776	14,796,179
Financial assets at fair value through profit or loss	2,956	-	-	2,956
Financial assets at fair value through other comprehensive income	3,077,679	1,377	-	3,079,056
Other assets	6,352	94	1,050	7,496
Total	27,597,237	16,340	781,138	28,394,715
Guarantees and commitments				
Guarantees issued in HRK	125,204	-	-	125,204
Issued guarantees in foreign currency	314,842	-	-	314,842
Open letters of credit in foreign currency	1,472	-	-	1,472
Undrawn loans	4,731,158	-	21,377	4,752,535
Total	5,172,676	-	21,377	5,194,053
Total credit risk exposure	32,769,913	16,340	802,515	33,588,768

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Bank	Republic of	EU	Other	Total
31 December 2021	Croatia	countries	countries	Total
	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	1,877,717	25,319	55,583	1,958,619
Deposits with other banks	-	7,500	-	7,500
Loans to financial institutions	7,050,143	-	-	7,050,143
Loans to other customers	15,681,740	-	282,636	15,964,376
Financial assets at fair value through profit or loss	16,375	-	-	16,375
Financial assets at fair value through other comprehensive income	2,871,219	1,469	-	2,872,688
Other assets	4,699	-	-	4,699
Total	27,501,893	34,288	338,219	27,874,400
Guarantees and commitments				
Guarantees issued in HRK	140,113	-	-	140,113
Issued guarantees in foreign currency	260,705	-	-	260,705
Undrawn loans	3,454,685	-	2,606	3,457,291
Total	3,855,503	-	2,606	3,858,109
Total credit risk exposure	31,357,396	34,288	340,825	31,732,509

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Bank	Republic of	EU	Other	Total
31 December 2020	Croatia	countries	countries	Total
	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	1,645,313	7,532	312	1,653,157
Deposits with other banks	-	7,337	-	7,337
Loans to financial institutions	8,842,580	-	-	8,842,580
Loans to other customers	14,016,403	-	779,776	14,796,179
Financial assets at fair value through profit or loss	2,956	-	-	2,956
Financial assets at fair value through other comprehensive income	3,025,241	1,377	-	3,026,618
Other assets	4,714	-	-	4,714
Total	27,537,207	16,246	780,088	28,333,541
Guarantees and commitments				
Guarantees issued in HRK	125,204	-	-	125,204
Issued guarantees in foreign currency	314,842	-	-	314,842
Open letters of credit in foreign currency	1,472	-	-	1,472
Undrawn loans	4,731,158	-	21,377	4,752,535
Total	5,172,676	-	21,377	5,194,053
Total credit risk exposure	32,709,883	16,246	801,465	33,527,594

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Group	Highest exposure	Highest exposure after the effect of mitigation through collateral received	Highest exposure	Highest exposure after the effect of mitigation through collateral received
	31 December	31 December	31 December	31 December
	2021	2021	2020	2020
	HRK '000	HRK '000	HRK '000	HRK '000
Financial intermediation and insurance	10,805,364	-	13,600,142	-
Water and electric supply and other infrastructure	1,925,271	973,895	1,927,789	1,136,584
Tourism	3,648,347	657,484	3,821,623	560,776
Transport, warehousing and connections	2,496,070	481,157	2,308,679	645,451
Shipbuilding	1,481,871	88,546	1,262,057	42,694
Agriculture and fishery	596,042	164,847	564,526	173,996
Food industry	966,929	192,536	1,024,670	139,475
Construction industry	2,836,586	124,601	2,442,149	185,442
Other industry	730,574	240,299	422,415	161,533
Public administration	2,918,243	2,914,897	3,065,554	3,064,916
Education	32,142	29,789	36,722	34,084
Manufacture of basic metals and fabricated metal products, except machinery and equipment	281,395	46,890	203,214	44,217
Manufacture of chemicals and chemical products	86,151	22,533	95,217	24,827
Manufacture of other non-metallic mineral products	171,322	126,355	168,235	53,238
Pharmaceutical industry	416,205	379,399	439,106	260,851
Manufacture of motor vehicles, trailers and semi-trailers	266,004	17,411	219,756	21,954
Other	2,136,797	291,527	1,986,914	306,054
Total credit risk exposure	31,795,313	6,752,166	33,588,768	6,856,092

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Bank	Highest exposure	Highest exposure after the effect of mitigation through collateral received	Highest exposure	Highest exposure after the effect of mitigation through collateral received
	31 December 2021 HRK '000	31 December 2021 HRK '000	31 December 2020 HRK '000	31 December 2020 HRK '000
Financial intermediation and insurance	10,801,196	-	13,593,044	-
Water and electric supply and other infrastructure	1,925,271	973,895	1,927,789	1,136,584
Tourism	3,648,347	657,484	3,821,623	560,776
Transport, warehousing and connections	2,495,987	481,074	2,308,501	645,273
Shipbuilding	1,481,871	88,546	1,262,057	42,694
Agriculture and fishery	595,896	164,701	564,506	173,976
Food industry	966,803	192,409	1,024,593	139,397
Construction industry	2,836,306	124,321	2,441,981	185,274
Other industry	730,311	240,036	422,077	161,194
Public administration	2,863,812	2,860,466	3,015,472	3,014,834
Education	32,142	29,789	36,722	34,084
Manufacture of basic metals and fabricated metal products, except machinery and equipment	281,312	46,808	203,139	44,142
Manufacture of chemicals and chemical products	86,151	22,533	95,217	24,828
Manufacture of other non-metallic mineral products	171,322	126,355	168,235	53,238
Pharmaceutical industry	414,615	377,809	437,600	259,346
Manufacture of motor vehicles, trailers and semi-trailers	266,004	17,411	219,756	21,954
Other	2,135,163	289,893	1,985,282	304,422
Total credit risk exposure	31,732,509	6,693,530	33,527,594	6,802,016

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

The fair value of collateral for the Group in 2021 amounted to HRK 25,043,147 thousand (31 December 2020: HRK 26,732,676 thousand) and for the Bank HRK 25,038,979 thousand (31 December 2020: HRK 26,725,578 thousand).

Net highest exposure as at 31 December 2021 for the Group amounted to HRK 6,752,166 thousand (31 December 2020: HRK 6,856,092 thousand) and for the Bank HRK 6,693,530 thousand (31 December 2020: HRK 6,802,016 thousand).

In the total net highest exposure after the effect of mitigation through collateral received as of 31 December 2021, the credit risk of HRK 4,361,928 thousand for the Group (31 December 2020: HRK 4,623,158 thousand) and HRK 4,307,497 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 478,914 thousand (31 December 2020: HRK 537,474 thousand), from local (regional) authorities of HRK 777,947 thousand (31 December 2020: HRK 807,097 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 180,112 thousand (31 December 2020: HRK 204,135 thousand), government funds of HRK 12 thousand (31 December 2020: HRK 13 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 2,924,943 thousand for the Group and HRK 2,870,512 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 year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

Credit risk quality according to type of financial assets

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

Group 31 December 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
Assets												
Cash on hand and current accounts with banks	1,961,985	-	-	-	-	1,961,985	-	-	-	-	-	-
Deposits with other banks	7,500	-	-	-	-	7,500	-	-	-	-	-	-
Loans to financial institutions	6,865,821	180,760	3,562	-	-	7,050,143	-	-	-	-	-	-
Loans to other customers	12,779,081	827,965	1,163,771	1,193,559	-	15,964,376	2,855,314	92,792	205,605	34,769	-	3,188,480
Financial assets at fair value through profit or loss	-	-	-	-	16,375	16,375	-	-	-	-	16,375	16,375
Financial assets at fair value through other comprehensive income	2,928,045	-	1,469	-	-	2,929,514	2,928,045	-	1,469	-	-	2,929,514
Other assets	5,938	12	1,310	51	-	7,311	2,398	12	749	51	-	3,210
Total	24,548,370	1,008,737	1,170,112	1,193,610	16,375	27,937,204	5,785,757	92,804	207,823	34,820	16,375	6,137,579
Guarantees and commitments												
Guarantees issued in HRK	71,262	22,713	46,138	-	-	140,113	30,516	18,957	20,938	-	-	70,411
Issued guarantees in foreign currency	62,694	377	197,634	-	-	260,705	49,764	-	71,433	-	-	121,197
Undrawn loans	3,167,285	253,401	-	36,605	-	3,457,291	282,102	140,095	-	782	-	422,979
Total	3,301,241	276,491	243,772	36,605	-	3,858,109	362,382	159,052	92,371	782	-	614,587
Total credit risk exposure	27,849,611	1,285,228	1,413,884	1,230,215	16,375	31,795,313	6,148,139	251,856	300,194	35,602	16,375	6,752,166

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. 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	Not subject to IFRS 9 HRK '000	Net exposure of total portfolio HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000	Not subject to IFRS 9 after the effect of mitigation through collateral received HRK '000	Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000
Assets												
Cash on hand and current accounts with banks	1,659,111	-	-	-	-	1,659,111	-	-	-	-	-	-
Deposits with other banks	7,337	-	-	-	-	7,337	-	-	-	-	-	-
Loans to financial institutions	8,613,679	219,109	9,792	-	-	8,842,580	-	-	-	-	-	-
Loans to other customers	11,126,079	1,089,538	1,495,922	1,084,640	-	14,796,179	2,689,969	71,907	272,269	53,250	-	3,087,395
Financial assets at fair value through profit or loss	298	-	-	-	2,658	2,956	-	-	-	-	2,658	2,658
Financial assets at fair value through other comprehensive income	3,077,679	-	1,377	-	-	3,079,056	3,077,679	-	1,377	-	-	3,079,056
Other assets	6,157	1	1,308	30	-	7,496	2,417	-	1,308	29	-	3,754
Total	24,490,340	1,308,648	1,508,399	1,084,670	2,658	28,394,715	5,770,065	71,907	274,954	53,279	2,658	6,172,863
Guarantees and commitments												
Guarantees issued in HRK	106,162	-	19,042	-	-	125,204	50,130	-	17,670	-	-	67,800
Issued guarantees in foreign currency	10,871	3,012	300,959	-	-	314,842	1,591	-	104,863	-	-	106,454
Open letters of credit in foreign currency	-	-	-	-	1,472	1,472	-	-	-	-	-	-
Undrawn loans	4,519,284	138,491	893	93,867	-	4,752,535	475,581	26,417	889	6,088	-	508,975
Total	4,636,317	141,503	320,894	93,867	1,472	5,194,053	527,302	26,417	123,422	6,088	-	683,229
Total credit risk exposure	29,126,657	1,450,151	1,829,293	1,178,537	4,130	33,588,768	6,297,367	98,324	398,376	59,367	2,658	6,856,092

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

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

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

Bank						Net exposure of portfolio after the effect of mitigation through collateral received Stage 1	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3	Net exposure of portfolio after the effect of mitigation through collateral received POCI	Not subject to IFRS 9 after the effect of mitigation through collateral received	Net exposure of total portfolio after the effect of mitigation through collateral received	
31 December 2021	Net exposure of portfolio - risk Stage 1	Net exposure of portfolio - risk Stage 2	Net exposure of portfolio - risk Stage 3	Net exposure of portfolio of risk POCI	Not subject to IFRS 9	Net exposure of total portfolio						
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	
Assets												
Cash on hand and current accounts with banks	1,958,619	-	-	-	-	1,958,619	-	-	-	-	-	
Deposits with other banks	7,500	-	-	-	-	7,500	-	-	-	-	-	
Loans to financial institutions	6,865,821	180,760	3,562	-	-	7,050,143	-	-	-	-	-	
Loans to other customers	12,779,081	827,965	1,163,771	1,193,559	-	15,964,376	2,855,314	92,792	205,605	34,769	3,188,480	
Financial assets at fair value through profit or loss	-	-	-	-	16,375	16,375	-	-	-	-	16,375	
Financial assets at fair value through other comprehensive income	2,871,219	-	1,469	-	-	2,872,688	2,871,219	-	1,469	-	2,872,688	
Other assets	3,326	12	1,310	51	-	4,699	588	12	749	51	1,400	
Total	24,485,566	1,008,737	1,170,112	1,193,610	16,375	27,874,400	5,727,121	92,804	207,823	34,820	16,375	6,078,943
Guarantees and commitments												
Guarantees issued in HRK	71,262	22,713	46,138	-	-	140,113	30,516	18,957	20,938	-	-	70,411
Issued guarantees in foreign currency	62,694	377	197,634	-	-	260,705	49,764	-	71,433	-	-	121,197
Undrawn loans	3,167,285	253,401	-	36,605	-	3,457,291	282,102	140,095	-	782	-	422,979
Total	3,301,241	276,491	243,772	36,605	-	3,858,109	362,382	159,052	92,371	782	-	614,587
Total credit risk exposure	27,786,807	1,285,228	1,413,884	1,230,215	16,375	31,732,509	6,089,503	251,856	300,194	35,602	16,375	6,693,530

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

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

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

Bank							Net exposure of portfolio after the effect of mitigation through collateral received Stage 1	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3	Net exposure of portfolio after the effect of mitigation through collateral received POCI	Not subject to IFRS 9 after the effect of mitigation through collateral received	Net exposure of total portfolio after the effect of mitigation through collateral received
31 December 2020	Net exposure of portfolio - risk Stage 1	Net exposure of portfolio - risk Stage 2	Net exposure of portfolio - risk Stage 3	Net exposure of portfolio of risk POCI	Not subject to IFRS 9	Net exposure of total portfolio	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets												
Cash on hand and current accounts with banks	1,653,157	-	-	-	-	1,653,157	-	-	-	-	-	-
Deposits with other banks	7,337	-	-	-	-	7,337	-	-	-	-	-	-
Loans to financial institutions	8,613,679	219,109	9,792	-	-	8,842,580	-	-	-	-	-	-
Loans to other customers	11,126,079	1,089,538	1,495,922	1,084,640	-	14,796,179	2,689,969	71,907	272,269	53,250	-	3,087,395
Financial assets at fair value through profit or loss	298	-	-	-	2,658	2,956	-	-	-	-	2,658	2,658
Financial assets at fair value through other comprehensive income	3,025,241	-	1,377	-	-	3,026,618	3,025,242	-	1,377	-	-	3,026,619
Other assets	3,375	1	1,308	30	-	4,714	778	-	1,308	29	-	2,115
Total	24,429,166	1,308,648	1,508,399	1,084,670	2,658	28,333,541	5,715,989	71,907	274,954	53,279	2,658	6,118,787
Guarantees and commitments												
Guarantees issued in HRK	106,162	-	19,042	-	-	125,204	50,130	-	17,670	-	-	67,800
Issued guarantees in foreign currency	10,871	3,012	300,959	-	-	314,842	1,591	-	104,863	-	-	106,454
Open letters of credit in foreign currency	-	-	-	-	1,472	1,472	-	-	-	-	-	-
Undrawn loans	4,519,284	138,491	893	93,867	-	4,752,535	475,581	26,417	889	6,088	-	508,975
Total	4,636,317	141,503	320,894	93,867	1,472	5,194,053	527,302	26,417	123,422	6,088	-	683,229
Total credit risk exposure	29,065,483	1,450,151	1,829,293	1,178,537	4,130	33,527,594	6,243,291	98,324	398,376	59,367	2,658	6,802,016

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

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

As at 31 December 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 1,436,818 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 478,759 thousand, local and regional authorities of HRK 777,947 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 180,112 thousand.

As at 31 December 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 2,924,943 thousand for the Group and HRK 2,870,512 thousand for the Bank.

As at 31 December 2021 other assets of HRK 167 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 and debt instruments at amortised cost is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 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 year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

i. Allowances

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

Cash on hand and current accounts with banks

Group

31 December 2021

	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2021	1,652	-	-	-	1,652
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	156	-	-	-	156
Net foreign exchange gain/loss on loss allowances	1	-	-	-	1
Balance at 31 December 2021	1,809	-	-	-	1,809

Group

31 December 2020

	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2020	483	-	-	-	483
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	1,160	-	-	-	1,160
Net foreign exchange gain/loss on loss allowances	9	-	-	-	9
Balance at 31 December 2020	1,652	-	-	-	1,652

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

i. Allowances (continued)

Cash on hand and current accounts with banks (continued)

Bank					
31 December 2021	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2021	1,643	-	-	-	1,643
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	160	-	-	-	160
Net foreign exchange gain/loss on loss allowances	1	-	-	-	1
Balance at 31 December 2021	1,804	-	-	-	1,804

Bank					
31 December 2020	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2020	479	-	-	-	479
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	1,155	-	-	-	1,155
Net foreign exchange gain/loss on loss allowances	9	-	-	-	9
Balance at 31 December 2020	1,643	-	-	-	1,643

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

i. Allowances (continued)

Deposits with other banks

Group and Bank

31 December 2021

	Stage 1	Stage 2	Stage 3	POCI	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
Balance at 31 December 2021	1	-	-	-	1

Group and Bank

31 December 2020

	Stage 1	Stage 2	Stage 3	POCI	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
Balance at 31 December 2020	1	-	-	-	1

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

i. Allowances (continued)

Loans to financial institutions

Group and Bank

31 December 2021

	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2021	36,795	35,435	10,567	-	82,797
Transfer to Stage 1	1,730	(17)	(1,713)	-	-
Transfer to Stage 2	(64)	64	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release) of loss allowance	(8,809)	(12,240)	(2,649)	-	(23,698)
Unwind – changes due to the lapse of time	(45)	-	(41)	-	(86)
Loss allowances transferred to loans to other customers	-	(16)	-	-	(16)
Net foreign exchange gain/loss on loss allowances	(53)	(42)	(2)	-	(97)
Balance at 31 December 2021	29,554	23,184	6,162	-	58,900

Group and Bank

31 December 2020

	Stage 1	Stage 2	Stage 3	POCI	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
Balance at 31 December 2020	36,795	35,435	10,567	-	82,797

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

i. Allowances (continued)

Loans to other customers

Group and Bank

31 December 2021

	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2021	353,077	517,219	2,422,493	182,941	3,475,730
Transfer to Stage 1	379,435	(310,274)	(69,161)	-	-
Transfer to Stage 2	(38,794)	46,782	(7,988)	-	-
Transfer to Stage 3	(268)	(50,314)	40,135	10,447	-
Net increase/(release) of loss allowance	(276,372)	353,926	53,002	(52,432)	78,124
Write-offs	(33,698)	-	(272,492)	-	(306,190)
Unwind – changes due to the lapse of time	(1,574)	(1,131)	7,575	20,217	25,087
Loss allowances transferred 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	-	-	-	21,427	21,427
Net foreign exchange gain/loss on loss allowances	(197)	(417)	11,214	(122)	10,478
Balance at 31 December 2021	381,609	555,807	2,099,064	219,436	3,255,916

Group and Bank

31 December 2020

	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2020	302,945	627,951	2,313,514	120,664	3,365,074
Transfer to Stage 1	240,277	(229,466)	(10,811)	-	-
Transfer to Stage 2	(22,462)	29,720	(7,258)	-	-
Transfer to Stage 3	(7,365)	(87,683)	72,940	22,108	-
Net increase/(release) of loss allowance	(162,930)	172,289	43,988	16,514	69,861
Write-offs	-	-	(384)	-	(384)
Unwind – changes due to the lapse of time	(427)	(434)	23,337	18,521	40,997
Loss allowances transferred to/from loans to financial institutions	-	36	-	-	36
Acquisition of immovable property	(690)	-	(5,508)	-	(6,198)
Other	-	-	-	5,865	5,865
Net foreign exchange gain/loss on loss allowances	3,729	4,806	(7,325)	(731)	479
Balance at 31 December 2020	353,077	517,219	2,422,493	182,941	3,475,730

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

i. Allowances (continued)

Financial assets at fair value through other comprehensive income

Group					
31 December 2021	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2021	2,935	-	1,647	-	4,582
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase/(release) of loss allowance	(118)	-	89	-	(29)
Net foreign exchange gain/loss on loss allowances	(3)	-	(5)	-	(8)
Balance at 31 December 2021	2,809	-	1,731	-	4,545

Group					
31 December 2020	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2020	1,422	426	1,507	-	3,355
Transfer to Stage 1	426	(426)	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	1,081	-	112	-	1,193
Net foreign exchange gain/loss on loss allowances	6	-	28	-	34
Balance at 31 December 2020	2,935	-	1,647	-	4,582

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

i. Allowances (continued)

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

Bank					
31 December 2021	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
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	(125)	-	89	-	(36)
Net foreign exchange gain/loss on loss allowances	(3)	-	(5)	-	(8)
Balance at 31 December 2021	2,724	-	1,731	-	4,455

Bank					
31 December 2020	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2020	1,350	426	1,507	-	3,283
Transfer to Stage 1	426	(426)	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	1,070	-	112	-	1,182
Net foreign exchange gain/loss on loss allowances	6	-	28	-	34
Balance at 31 December 2020	2,852	-	1,647	-	4,499

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

i. Allowances (continued)

Other assets

Group					
31 December 2021	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2021	171	1	34,359	5	34,536
Transfer to Stage 1	10	(2)	(8)	-	-
Transfer to Stage 2	(4)	4	-	-	-
Transfer to Stage 3	-	(1)	1	-	-
Net (release)/increase of loss allowance	(3)	2	(2,786)	245	(2,542)
Write-offs	(12)	-	(151)	-	(163)
Net foreign exchange gain/loss on loss allowances	-	-	3	-	3
Other adjustments	17	-	-	-	17
Balance at 31 December 2021	179	4	31,418	250	31,851

Group					
31 December 2020	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2020	164	18	35,382	6	35,570
Transfer to Stage 1	8	(1)	(7)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	(3)	(9)	12	-	-
Net release of loss allowance	(35)	(7)	(989)	(1)	(1,032)
Foreclosed assets	-	-	(2)	-	(2)
Net foreign exchange gain/loss on loss allowances	-	-	(37)	-	(37)
Other adjustments	37	-	-	-	37
Balance at 31 December 2020	171	1	34,359	5	34,536

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

i. Allowances (continued)

Other assets (continued)

Bank

31 December 2021

	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2021	31	1	34,359	5	34,396
Transfer to Stage 1	10	(2)	(8)	-	-
Transfer to Stage 2	(4)	4	-	-	-
Transfer to Stage 3	-	(1)	1	-	-
Net (release)/increase of loss allowance	(12)	2	(2,786)	245	(2,551)
Write-offs	-	-	(151)	-	(151)
Net foreign exchange gain/loss on loss allowances	-	-	3	-	3
Balance at 31 December 2021	25	4	31,418	250	31,697

Bank

31 December 2020

	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000				
Balance at 1 January 2020	30	18	35,382	6	35,436
Transfer to Stage 1	8	(1)	(7)	-	-
Transfer to Stage 2	(2)	2	-	-	-
Transfer to Stage 3	(1)	(11)	12	-	-
Net (release)/increase of loss allowance	(4)	(7)	(989)	(1)	(1,001)
Foreclosed assets	-	-	(2)	-	(2)
Net foreign exchange gain/loss on loss allowances	-	-	(37)	-	(37)
Balance at 31 December 2020	31	1	34,359	5	34,396

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.3. Credit risk (continued)

i. Allowances (continued)

Guarantees and commitments

**Group and Bank
31 December 2021**

	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
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	(2,968)	19,778	63,447	2,045	82,302
Net foreign exchange gain/loss on loss allowances	(87)	4	1,806	6	1,729
Balance at 31 December 2021	10,652	26,256	82,779	9,900	129,587

**Group and Bank
31 December 2020**

	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2020	24,946	14,289	15,918	2,563	57,716
Transfer to Stage 1	2,802	(2,802)	-	-	-
Transfer to Stage 2	(3,299)	3,299	-	-	-
Transfer to Stage 3	-	(2,616)	2,257	359	-
Net (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)
Balance at 31 December 2020	8,659	11,523	17,525	7,849	45,556

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.4. Liquidity risk

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 31 December 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 31 December 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
Assets						
Cash on hand and current accounts with banks	1,961,986	-	-	-	-	1,961,986
Deposits with other banks	-	-	-	-	7,500	7,500
Loans to financial institutions*	140,979	188,898	817,773	1,870,557	4,031,936	7,050,143
Loans to other customers	1,903,430	341,173	1,109,842	3,254,643	9,355,288	15,964,376
Financial assets at fair value through profit or loss	202,609	-	-	-	16,375	218,984
Financial assets at fair value through other comprehensive income	2,956,994	15,501	35	-	-	2,972,530
Property, plant and equipment and intangible assets	-	-	-	-	43,937	43,937
Foreclosed assets	9	-	156	11,272	9,932	21,369
Other assets	7,632	1,838	24,649	1,734	1,684	37,537
Total assets	7,173,639	547,410	1,952,455	5,138,206	13,466,652	28,278,362
Liabilities						
Deposits from customers	622,284	22,169	105,183	95,453	115,452	960,541
Borrowings	244,301	333,934**	1,807,992	5,777,582	7,951,428	16,115,237
Provisions for guarantees, commitments and other liabilities	105,893	5,962	20,072	30,577	28,056	190,560
Other liabilities	232,641	15,695	51,058	75,994	59,851	435,239
Total liabilities	1,205,119	377,760	1,984,305	5,979,606	8,154,787	17,701,577
Liquidity gap	5,968,520	169,650	(31,850)	(841,400)	5,311,865	10,576,785
Guarantees and commitments						
Guarantees issued in HRK	170,555	-	-	-	-	170,555
Issued guarantees in foreign currency	325,103	-	-	-	-	325,103
Undrawn loans	3,492,038	-	-	-	-	3,492,038
EIF – subscribed, not called up capital	78,179	-	-	-	-	78,179
EIF CROGIP Contracted Liability	-	12,616	56,771	112,664	130,438	312,489
EIF FRC2 Contracted Liability	678	532	2,393	2,171	469	6,243
Total guarantees and commitments	4,066,553	13,148	59,164	114,835	130,907	4,384,607

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

* Receivables of HRK 8,239 thousand relate to reverse REPO agreements.

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.4. 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
Assets						
Cash on hand and current accounts with banks	1,659,116	-	-	-	-	1,659,116
Deposits with other banks	58	-	-	-	7,279	7,337
Loans to financial institutions*	140,541	386,838	1,131,004	2,330,714	4,853,483	8,842,580
Loans to other customers	1,773,535	266,248	1,120,651	2,605,303	9,030,442	14,796,179
Financial assets at fair value through profit or loss	189,098	-	-	-	2,658	191,756
Financial assets at fair value through other comprehensive income	3,088,069	17,669	26	-	-	3,105,764
Property, plant and equipment and intangible assets	-	-	-	-	46,448	46,448
Foreclosed assets	2,044	-	841	18,467	3,870	25,222
Other assets	6,838	2,061	18,939	3,626	676	32,140
Total assets	6,859,299	672,816	2,271,461	4,958,110	13,944,856	28,706,542
Liabilities						
Deposits from customers	787,664	18,526	75,995	57,212	34,996	974,393
Borrowings	198,450	369,081**	1,729,314	5,710,981	8,856,109	16,863,935
Provisions for guarantees, commitments and other liabilities	50,188	3,912	15,745	19,847	18,364	108,056
Other liabilities	181,974	16,904	58,933	77,558	61,024	396,393
Total liabilities	1,218,276	408,423	1,879,987	5,865,598	8,970,493	18,342,777
Liquidity gap	5,641,023	264,393	391,474	(907,488)	4,974,363	10,363,765
Guarantees and commitments						
Guarantees issued in HRK	125,204	-	-	-	-	125,204
Issued guarantees in foreign currency	314,843	-	-	-	-	314,843
Open letters of credit in foreign currency	1,471	-	-	-	-	1,471
Undrawn loans	4,752,535	-	-	-	-	4,752,535
EIF – subscribed, not called up capital	48,236	-	-	-	-	48,236
EIF CROGIP Contracted Liability	-	10,000	38,000	114,382	125,301	287,683
EIF FRC2 Contracted Liability	436	700	3,600	4,650	101	9,487
Total guarantees and commitments	5,242,725	10,700	41,600	119,032	125,402	5,539,459

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

* Receivables of HRK 27,574 thousand relate to reverse REPO agreements.

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.4. Liquidity risk (continued)

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 31 December 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 31 December 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
Assets						
Cash on hand and current accounts with banks	1,958,620	-	-	-	-	1,958,620
Deposits with other banks	-	-	-	-	7,500	7,500
Loans to financial institutions*	140,979	188,898	817,773	1,870,557	4,031,936	7,050,143
Loans to other customers	1,903,430	341,173	1,109,842	3,254,643	9,355,288	15,964,376
Financial assets at fair value through profit	202,609	-	-	-	16,375	218,984
Financial assets at fair value through other	2,900,262	15,442	-	-	-	2,915,704
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	42,674	42,674
Foreclosed assets	9	-	156	11,272	9,932	21,369
Other assets	5,749	947	24,380	1,734	1,684	34,494
Total assets	7,111,658	546,460	1,952,151	5,138,206	13,501,513	28,249,988
Liabilities						
Deposits from customers	622,284	22,169	105,183	95,453	115,452	960,541
Borrowings	244,301	333,934**	1,807,992	5,777,582	7,951,428	16,115,237
Provisions for guarantees, commitments and other liabilities	105,893	5,962	19,815	30,577	28,056	190,303
Other liabilities	231,580	13,038	43,334	66,870	61,356	416,178
Total liabilities	1,204,058	375,103	1,976,324	5,970,482	8,156,292	17,682,259
Liquidity gap	5,907,600	171,357	(24,173)	(832,276)	5,345,221	10,567,729
Guarantees and commitments						
Guarantees issued in HRK	170,555	-	-	-	-	170,555
Issued guarantees in foreign currency	325,103	-	-	-	-	325,103
Undrawn loans	3,492,038	-	-	-	-	3,492,038
EIF – subscribed, not called up capital	78,179	-	-	-	-	78,179
EIF CROGIP Contracted Liability	-	12,616	56,771	112,664	130,438	312,489
EIF FRC2 Contracted Liability	678	532	2,393	2,171	469	6,243
Total guarantees and commitments	4,066,553	13,148	59,164	114,835	130,907	4,384,607

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

* Receivables of HRK 8,239 thousand relate to reverse REPO agreements.

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

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.4. 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
Assets						
Cash on hand and current accounts with banks	1,653,162	-	-	-	-	1,653,162
Deposits with other banks	58	-	-	-	7,279	7,337
Loans to financial institutions*	140,541	386,838	1,131,004	2,330,714	4,853,483	8,842,580
Loans to other customers	1,773,535	266,248	1,120,651	2,605,303	9,030,442	14,796,179
Financial assets at fair value through profit	189,098	-	-	-	2,658	191,756
Financial assets at fair value through other	3,035,716	17,610	-	-	-	3,053,326
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	45,592	45,592
Foreclosed assets	2,044	-	841	18,467	3,870	25,222
Other assets	5,083	912	18,786	3,625	676	29,082
Total assets	6,799,237	671,608	2,271,282	4,958,109	13,980,124	28,680,360
Liabilities						
Deposits from customers	787,664	18,526	75,995	57,212	34,996	974,393
Borrowings	198,450	369,081**	1,729,314	5,710,981	8,856,109	16,863,935
Provisions for guarantees, commitments and other liabilities	50,188	3,912	15,485	19,847	18,364	107,796
Other liabilities	181,256	13,470	53,316	68,338	63,232	379,612
Total liabilities	1,217,558	404,989	1,874,110	5,856,378	8,972,701	18,325,736
Liquidity gap	5,581,679	266,619	397,172	(898,269)	5,007,423	10,354,624
Guarantees and commitments						
Guarantees issued in HRK	125,204	-	-	-	-	125,204
Issued guarantees in foreign currency	314,843	-	-	-	-	314,843
Open letters of credit in foreign currency	1,471	-	-	-	-	1,471
Undrawn loans	4,752,535	-	-	-	-	4,752,535
EIF – subscribed, not called up capital	48,236	-	-	-	-	48,236
EIF CROGIP Contracted Liability	-	10,000	38,000	114,382	125,301	287,683
EIF FRC2 Contracted Liability	436	700	3,600	4,650	101	9,487
Total guarantees and commitments	5,242,725	10,700	41,600	119,032	125,402	5,539,459

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

* Receivables of HRK 27,574 thousand relate to reverse REPO agreements.

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.4. Liquidity risk (continued)

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

Group	Up to 1	1 - 3	3 - 12	1 - 3	Over 3	Total
31 December 2021	month	months	months	years	years	
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits from customers	622,284	22,169	105,183	95,453	115,452	960,541
Borrowings	258,366	315,326	1,927,599	5,992,204	8,623,885	17,117,380
Provisions for guarantees, commitments and other liabilities	105,893	5,962	20,072	30,577	28,056	190,560
Other liabilities	232,641	15,695	51,058	75,994	59,851	435,239
Total	1,219,184	359,152	2,103,912	6,194,228	8,827,244	18,703,720
Guarantees and commitments						
Guarantees issued in HRK	170,555	-	-	-	-	170,555
Issued guarantees in foreign currency	325,103	-	-	-	-	325,103
Undrawn loans	3,492,038	-	-	-	-	3,492,038
EIF – subscribed, not called up capital	78,179	-	-	-	-	78,179
EIF CROGIP Contracted Liability	-	12,616	56,771	112,664	130,438	312,489
EIF FRC2 Contracted Liability	678	532	2,393	2,171	469	6,243
Total guarantees and commitments	4,066,553	13,148	59,164	114,835	130,907	4,384,607
Group 31 December 2020						
	Up to 1	1 - 3	3 - 12	1 - 3	Over 3	Total
	month	months	months	years	years	
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits from customers	787,664	18,526	75,995	57,212	34,996	974,393
Borrowings	215,012	390,277	1,872,218	5,985,297	9,351,468	17,814,272
Provisions for guarantees, commitments and other liabilities	50,188	3,912	15,745	19,847	18,364	108,056
Other liabilities	181,974	16,904	58,933	77,558	61,024	396,393
Total	1,234,838	429,619	2,022,891	6,139,914	9,465,852	19,293,114
Guarantees and commitments						
Guarantees issued in HRK	125,204	-	-	-	-	125,204
Issued guarantees in foreign currency	314,843	-	-	-	-	314,843
Open letters of credit in foreign currency	1,471	-	-	-	-	1,471
Undrawn loans	4,752,535	-	-	-	-	4,752,535
EIF – subscribed, not called up capital	48,236	-	-	-	-	48,236
EIF CROGIP Contracted Liability	-	10,000	38,000	114,382	125,301	287,683
EIF FRC2 Contracted Liability	436	700	3,600	4,650	101	9,487
Total guarantees and commitments	5,242,725	10,700	41,600	119,032	125,402	5,539,459

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.4. Liquidity risk (continued)

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

Bank	Up to 1	1 - 3	3 - 12	1 - 3	Over 3	Total
31 December 2021	month	months	months	years	years	
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits from customers	622,284	22,169	105,183	95,453	115,452	960,541
Borrowings	258,366	315,326	1,927,599	5,992,204	8,623,885	17,117,380
Provisions for guarantees, commitments and other liabilities	105,893	5,962	19,815	30,577	28,056	190,303
Other liabilities	231,580	13,038	43,334	66,870	61,356	416,178
Total	1,218,123	356,495	2,095,931	6,185,104	8,828,749	18,684,402
Guarantees and commitments						
Guarantees issued in HRK	170,555	-	-	-	-	170,555
Issued guarantees in foreign currency	325,103	-	-	-	-	325,103
Undrawn loans	3,492,038	-	-	-	-	3,492,038
EIF – subscribed, not called up capital	78,179	-	-	-	-	78,179
EIF CROGIP Contracted Liability	-	12,616	56,771	112,664	130,438	312,489
EIF FRC2 Contracted Liability	678	532	2,393	2,171	469	6,243
Total guarantees and commitments	4,066,553	13,148	59,164	114,835	130,907	4,384,607
Bank						
31 December 2020	Up to 1	1 - 3	3 - 12	1 - 3	Over 3	Total
	month	months	months	years	years	
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits from customers	787,664	18,526	75,995	57,212	34,996	974,393
Borrowings	215,012	390,277	1,872,218	5,985,297	9,351,468	17,814,272
Provisions for guarantees, commitments and other liabilities	50,188	3,912	15,485	19,847	18,364	107,796
Other liabilities	181,256	13,470	53,316	68,338	63,232	379,612
Total	1,234,120	426,185	2,017,014	6,130,694	9,468,060	19,276,073
Guarantees and commitments						
Guarantees issued in HRK	125,204	-	-	-	-	125,204
Issued guarantees in foreign currency	314,843	-	-	-	-	314,843
Open letters of credit in foreign currency	1,471	-	-	-	-	1,471
Undrawn loans	4,752,535	-	-	-	-	4,752,535
EIF – subscribed, not called up capital	48,236	-	-	-	-	48,236
EIF CROGIP Contracted Liability	-	10,000	38,000	114,382	125,301	287,683
EIF FRC2 Contracted Liability	436	700	3,600	4,650	101	9,487
Total guarantees and commitments	5,242,725	10,700	41,600	119,032	125,402	5,539,459

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

32. Risk management

32.5. Market risk

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

32.5.1. Interest rate risk

The following tables demonstrate the sensitivity of the Group to the interest rate risk as of 31 December 2021 and 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 of 31 December 2021 and 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
31 December 2021	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets								
Cash on hand and current accounts								
with banks	84,268	-	-	-	-	1,877,718	1,961,986	84,268
Deposits with other banks	-	-	-	-	-	7,500	7,500	-
Loans to financial institutions	136,649	300,681	794,823	1,825,594	3,989,089	3,307	7,050,143	6,925,020
Loans to other customers	1,721,753	643,354	1,294,971	3,130,097	8,977,083	197,118	15,964,376	14,941,579
Financial assets at fair value through profit or loss	-	-	-	-	16,375	202,609	218,984	16,375
Financial assets at fair value through other comprehensive income	2,913,647	-	-	-	-	58,883	2,972,530	2,913,647
Other assets	-	-	-	-	-	37,537	37,537	-
Total assets	4,856,317	944,035	2,089,794	4,955,691	12,982,547	2,384,672	28,213,056	24,880,889
Liabilities								
Deposits from customers	417,163	-	-	-	-	543,378	960,541	417,163
Borrowings	244,301	310,552	1,807,992	5,775,874	7,941,861	34,657	16,115,237	16,069,304
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	190,560	190,560	-
Other liabilities	-	-	-	-	-	435,239	435,239	-
Total liabilities	661,464	310,552	1,807,992	5,775,874	7,941,861	1,203,834	17,701,577	16,486,467
Interest rate gap	4,194,853	633,483	281,802	(820,183)	5,040,686	1,180,838	10,511,479	8,394,422

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.5. Market risk (continued)

32.5.1. Interest rate risk (continued)

Group	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total	Fixed interest rate
31 December 2020	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets								
Cash on hand and current accounts with banks	169,334	-	-	-	-	1,489,782	1,659,116	169,334
Deposits with other banks	-	-	-	-	-	7,337	7,337	-
Loans to financial institutions	135,389	549,052	1,099,713	2,264,789	4,782,876	10,761	8,842,580	8,656,158
Loans to other customers	1,690,359	591,488	1,214,415	2,473,860	8,544,386	281,671	14,796,179	13,626,578
Financial assets at fair value through profit or loss	298	-	-	-	2,658	188,800	191,756	2,956
Financial assets at fair value through other comprehensive income	3,061,002	-	-	-	-	44,762	3,105,764	3,061,002
Other assets	-	-	-	-	-	32,140	32,140	-
Total assets	5,056,382	1,140,540	2,314,128	4,738,649	13,329,920	2,055,253	28,634,872	25,516,028
Liabilities								
Deposits from customers	-	-	-	-	-	974,393	974,393	-
Borrowings	198,450	328,361	1,729,314	5,710,981	8,856,109	40,720	16,863,935	16,823,215
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	108,056	108,056	-
Other liabilities	-	-	-	-	-	396,393	396,393	-
Total liabilities	198,450	328,361	1,729,314	5,710,981	8,856,109	1,519,562	18,342,777	16,823,215
Interest rate gap	4,857,932	812,179	584,814	(972,332)	4,473,811	535,691	10,292,095	8,692,813

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.5. Market risk (continued)

32.5.1. Interest rate risk (continued)

The following tables demonstrate the sensitivity of HBOR to the interest rate risk as of 31 December 2021 and 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 HBOR's interest rate risk exposure as of 31 December 2021 and 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
31 December 2021								
Assets								
Cash on hand and current accounts with banks	80,902	-	-	-	-	1,877,718	1,958,620	80,902
Deposits with other banks	-	-	-	-	-	7,500	7,500	-
Loans to financial institutions	136,649	300,681	794,823	1,825,594	3,989,089	3,307	7,050,143	6,925,020
Loans to other customers	1,721,753	643,354	1,294,971	3,130,097	8,977,083	197,118	15,964,376	14,941,579
Financial assets at fair value through profit or loss	-	-	-	-	16,375	202,609	218,984	16,375
Financial assets at fair value through other comprehensive income	2,857,247	-	-	-	-	58,457	2,915,704	2,857,247
Other assets	-	-	-	-	-	34,494	34,494	-
Total assets	4,796,551	944,035	2,089,794	4,955,691	12,982,547	2,381,203	28,149,821	24,821,123
Liabilities								
Deposits from customers	417,163	-	-	-	-	543,378	960,541	417,163
Borrowings	244,301	310,552	1,807,992	5,775,874	7,941,861	34,657	16,115,237	16,069,304
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	190,303	190,303	-
Other liabilities	-	-	-	-	-	416,178	416,178	-
Total liabilities	661,464	310,552	1,807,992	5,775,874	7,941,861	1,184,516	17,682,259	16,486,467
Interest rate gap	4,135,087	633,483	281,802	(820,183)	5,040,686	1,196,687	10,467,562	8,334,656

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.5. Market risk (continued)

32.5.1. Interest rate risk (continued)

Bank	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total	Fixed interest rate
31 December 2020	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets								
Cash on hand and current accounts with banks	163,379	-	-	-	-	1,489,783	1,653,162	163,379
Deposits with other banks	-	-	-	-	-	7,337	7,337	-
Loans to financial institutions	135,389	549,052	1,099,713	2,264,789	4,782,876	10,761	8,842,580	8,656,158
Loans to other customers	1,690,359	591,488	1,214,415	2,473,860	8,544,386	281,671	14,796,179	13,626,578
Financial assets at fair value through profit or loss	298	-	-	-	2,658	188,800	191,756	2,956
Financial assets at fair value through other comprehensive income	3,009,009	-	-	-	-	44,317	3,053,326	3,009,009
Other assets	-	-	-	-	-	29,082	29,082	-
Total assets	4,998,434	1,140,540	2,314,128	4,738,649	13,329,920	2,051,751	28,573,422	25,458,080
Liabilities								
Deposits from customers	-	-	-	-	-	974,393	974,393	-
Borrowings	198,450	328,361	1,729,314	5,710,981	8,856,109	40,720	16,863,935	16,823,215
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	107,796	107,796	-
Other liabilities	-	-	-	-	-	379,612	379,612	-
Total liabilities	198,450	328,361	1,729,314	5,710,981	8,856,109	1,502,521	18,325,736	16,823,215
Interest rate gap	4,799,984	812,179	584,814	(972,332)	4,473,811	549,230	10,247,686	8,634,865

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.5. Market risk (continued)

32.5.1. Interest rate risk (continued)

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

	31 December	Group	31 December	Bank
	2021	31 December	31 December	31 December
	HRK '000	2020	2021	2020
		HRK '000	HRK '000	HRK '000
Assets				
Fixed interest rate assets	24,880,889	25,516,028	24,821,123	25,458,080
Variable interest rate assets	947,495	1,063,591	947,495	1,063,591
Non-interest bearing	2,384,672	2,055,253	2,381,203	2,051,751
Total	28,213,056	28,634,872	28,149,821	28,573,422
Liabilities				
Fixed interest rate liabilities	16,486,467	16,823,215	16,486,467	16,823,215
Variable interest rate liabilities	11,276	-	11,276	-
Non-interest bearing	1,203,834	1,519,562	1,184,516	1,502,521
Total liabilities	17,701,577	18,342,777	17,682,259	18,325,736

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.5. Market risk (continued)

32.5.1. Interest rate risk (continued)

Sensitivity analysis

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

Volatility of reference interest rates for 2021 has been determined using the standard deviation method on the daily changes of the reference interest rates linked to EUR and USD. On the basis of the above volatility, possible changes in reference interest rates linked to EUR and USD have been established and used in the sensitivity analysis.

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

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

Currency	Increase in b.p. in 2021	Effect on profit in 2021 HRK '000	Increase in b.p. in 2020	Effect on profit in 2020 HRK '000
EUR	+6	- ⁵	+31	-
USD	+10	174	+16	343
Currency	Decrease in b.p. in 2021	Effect on profit in 2021 HRK '000	Decrease in b.p. in 2020	Effect on profit in 2020 HRK '000
EUR	-6	-	-31	-
USD	-10	(174)	-16	(343)

³ 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 year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.5. Market risk (continued)

32.5.2. Currency risk

Total assets and total liabilities as of 31 December 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
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
31 December 2021						
Assets						
Cash on hand and current accounts with banks	55,583	25,337	-	80,920	1,881,066	1,961,986
Deposits with other banks	-	7,500	-	7,500	-	7,500
Loans to financial institutions	-	3,336,385	-	3,336,385	3,713,758	7,050,143
Loans to other customers	225,452	9,745,523	-	9,970,975	5,993,401	15,964,376
Financial assets at fair value through profit or loss	16,044	100,103	-	116,147	102,837	218,984
Financial assets at fair value through other comprehensive income	-	827,581	-	827,581	2,144,949	2,972,530
Property, plant and equipment and intangible assets	-	-	-	-	43,937	43,937
Foreclosed assets	-	-	-	-	21,369	21,369
Other assets	-	1,372	-	1,372	36,165	37,537
Total assets	297,079	14,043,801	-	14,340,880	13,937,482*	28,278,362
Liabilities						
Deposits from customers	106,027	471,389	-	577,416	383,125	960,541
Borrowings	189,999	14,424,638	-	14,614,637	1,500,600	16,115,237
Provisions for guarantees, commitments and other liabilities	23,613	25,674	15,098	64,385	126,175	190,560
Other liabilities	125	12,493	55	12,673	422,566	435,239
Total liabilities	319,764	14,934,194	15,153	15,269,111	2,432,466	17,701,577
Currency gap	(22,685)	(890,393)	(15,153)	(928,231)	11,505,016	10,576,785

*Amounts linked to a one-way currency clause represent HRK 28,554 thousand.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.5. Market risk (continued)

32.5.2. 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
Assets						
Cash on hand and current accounts with banks	6,871	158,046	134	165,051	1,494,065	1,659,116
Deposits with other banks	-	7,337	-	7,337	-	7,337
Loans to financial institutions	-	4,404,829	-	4,404,829	4,437,751	8,842,580
Loans to other customers	265,977	9,878,211	-	10,144,188	4,651,991	14,796,179
Financial assets at fair value through profit or loss	-	61,949	-	61,949	129,807	191,756
Financial assets at fair value through other comprehensive income	-	1,170,687	-	1,170,687	1,935,077	3,105,764
Property, plant and equipment and intangible assets	-	-	-	-	46,448	46,448
Foreclosed assets	-	-	-	-	25,222	25,222
Other assets	-	1,255	-	1,255	30,885	32,140
Total assets	272,848	15,682,314	134	15,955,296	12,751,246*	28,706,542
Liabilities						
Deposits from customers	16,456	652,083	44	668,583	305,810	974,393
Borrowings	194,605	15,168,730	-	15,363,335	1,500,600	16,863,935
Provisions for guarantees, commitments and other liabilities	9,720	6,191	1,062	16,973	91,083	108,056
Other liabilities	183	25,136	58	25,377	371,016	396,393
Total liabilities	220,964	15,852,140	1,164	16,074,268	2,268,509	18,342,777
Currency gap	51,884	(169,826)	(1,030)	(118,972)	10,482,737	10,363,765

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.5. Market risk (continued)

32.5.2. Currency risk (continued)

Total assets and total liabilities as of 31 December 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
31 December 2021	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets						
Cash on hand and current accounts with banks	55,583	25,319	-	80,902	1,877,718	1,958,620
Deposits with other banks	-	7,500	-	7,500	-	7,500
Loans to financial institutions	-	3,336,385	-	3,336,385	3,713,758	7,050,143
Loans to other customers	225,452	9,745,523	-	9,970,975	5,993,401	15,964,376
Financial assets at fair value through profit or loss	16,044	100,103	-	116,147	102,837	218,984
Financial assets at fair value through other comprehensive income	-	798,195	-	798,195	2,117,509	2,915,704
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	42,674	42,674
Foreclosed assets	-	-	-	-	21,369	21,369
Other assets	-	491	-	491	34,003	34,494
Total assets	297,079	14,013,516	-	14,310,595	13,939,393*	28,249,988
Liabilities						
Deposits from customers	106,027	471,389	-	577,416	383,125	960,541
Borrowings	189,999	14,424,638	-	14,614,637	1,500,600	16,115,237
Provisions for guarantees, commitments and other liabilities	23,613	25,674	15,098	64,385	125,918	190,303
Other liabilities	-	3,597	-	3,597	412,581	416,178
Total liabilities	319,639	14,925,298	15,098	15,260,035	2,422,224	17,682,259
Currency gap	(22,560)	(911,782)	(15,098)	(949,440)	11,517,169	10,567,729

* Amounts linked to a one-way currency clause represent HRK 28,554 thousand.

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.5. Market risk (continued)

32.5.2. 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
Assets						
Cash on hand and current accounts with banks	6,871	156,374	134	163,379	1,489,783	1,653,162
Deposits with other banks	-	7,337	-	7,337	-	7,337
Loans to financial institutions	-	4,404,829	-	4,404,829	4,437,751	8,842,580
Loans to other customers	265,977	9,878,211	-	10,144,188	4,651,991	14,796,179
Financial assets at fair value through profit or loss	-	61,949	-	61,949	129,807	191,756
Financial assets at fair value through other comprehensive income	-	1,148,204	-	1,148,204	1,905,122	3,053,326
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	45,592	45,592
Foreclosed assets	-	-	-	-	25,222	25,222
Other assets	-	112	-	112	28,970	29,082
Total assets	272,848	15,657,016	134	15,929,998	12,750,362*	28,680,360
Liabilities						
Deposits from customers	16,456	652,083	44	668,583	305,810	974,393
Borrowings	194,605	15,168,730	-	15,363,335	1,500,600	16,863,935
Provisions for guarantees, commitments and other liabilities	9,720	6,191	1,062	16,973	90,823	107,796
Other liabilities	26	16,059	-	16,085	363,527	379,612
Total liabilities	220,807	15,843,063	1,106	16,064,976	2,260,760	18,325,736
Currency gap	52,041	(186,047)	(972)	(134,978)	10,489,602	10,354,624

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

32. Risk management (continued)

32.5. Market risk (continued)

32.5.2. Currency risk (continued)

Sensitivity analysis

Sensitivity analysis of the Bank's total assets and total liabilities to fluctuations in foreign exchange rates is carried out for those foreign currencies that represent Bank's significant currencies as at the reporting date.

An assumption of reasonably possible fluctuations in EUR exchange rates against HRK was used in the foreign currency risk sensitivity analysis, with the other variables remaining stable, in order to assess the hypothetical effect on HBOR's profit as of 31 December 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 1.49% in the last 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 in 2021 %	Effect on profit in 2021 HRK' 000	Change in currency rate in 2020 %	Effect on profit in 2020 HRK' 000
EUR	+1.49	(11,246)	+1.72	(706)
EUR	-1.49	10,779	-1.72	738

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

33. Fair value of financial assets and financial liabilities

The accounting policy on fair value measurements is discussed in Note 4.1.

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

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

Group	31 December 2021		
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
Financial assets at fair value through profit or loss:			
Loans at FVPL:			
Mezzanine loans	-	-	16,375
Investments in investment funds:			
Investments in investment funds at fair value through profit or loss	202,260	-	-
Equity instruments:			
Listed equity instruments:			
Investments in corporate shares	-	-	-
Unlisted equity instruments:			
Investments in corporate shares	-	-	31
Depository receipt - DR	-	-	318
Total financial assets at fair value through profit or loss	202,260	-	16,724
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	1,358,981	-	-
Corporate bonds	2,393	-	-
Treasury bills of the Ministry of Finance	-	1,550,344	-
Accrued interest	15,620	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	532
Convertible bonds - CB	-	-	1,397
Accrued interest	-	-	247
Total debt instruments	1,376,994	1,550,344	2,176
Unlisted equity instruments:			
Investment in shares of foreign legal entities	-	45	-
Shares of foreign financial institutions – EIF	-	42,971	-
Total equity instruments	-	43,016	-
Total financial assets at fair value through other comprehensive income	1,376,994	1,593,360	2,176

Treasury bills of the Ministry of Finance are presented at level 2 of the fair value hierarchy. To calculate fair value, the discounted cash flow method was used at a discount rate that corresponded to the yields realised at the last auction of the Ministry of Finance before the valuation date. The transfer from Level 1 to Level 2 occurred because the quoted bid prices on Bloomberg were higher (with a negative purchase yield) in relation to the prices realised at the same time at the primary auction of treasury bills, at which the treasury bills were issued with positive yields.

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.

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

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

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

Group	31 December 2020		
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
Financial assets at fair value through profit or loss:			
<i>Loans at FVPL:</i>			
Mezzanine loans	-	-	2,658
<i>Investments in investment funds:</i>			
Investments in investment funds at fair value through profit or loss	188,289	-	-
Equity instruments:			
<i>Listed equity instruments:</i>			
Investments in corporate shares	-	-	-
<i>Unlisted equity instruments:</i>			
Investments in corporate shares	-	-	31
Depository receipt - DR	-	-	319
Investment in financial institutions shares	-	161	-
<i>Derivative financial assets-positive fair value</i>			
FX swap	-	298	-
Total financial assets at fair value through profit or loss	188,289	459	3,008
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
<i>Listed debt instruments:</i>			
Bonds of the Republic of Croatia	1,519,381	-	-
Corporate bonds	2,355	-	-
Treasury bills of the Ministry of Finance	1,537,395	-	-
Accrued interest	17,663	-	-
<i>Unlisted debt instruments:</i>			
Corporate bonds	-	-	564
Convertible bonds - CB	-	-	1,307
Accrued interest	-	-	391
Total debt instruments	3,076,794	-	2,262
<i>Unlisted equity instruments:</i>			
Investment in shares of foreign legal entities	-	43	-
Shares of foreign financial institutions – EIF	-	26,665	-
Total equity instruments	-	26,708	-
Total financial assets at fair value through other comprehensive income	3,076,794	26,708	2,262

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

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

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

Bank	31 December 2021		
	Level 1	Level 2	Level 3
	HRK '000	HRK '000	HRK '000
Financial assets at fair value through profit or loss:			
Loans at FVPL:			
Mezzanine loans	-	-	16,375
Investments in investment funds:			
Investments in investment funds at fair value through profit or loss	202,260	-	-
Equity instruments:			
Listed equity instruments:			
Investments in companies' shares	-	-	-
Unlisted equity instruments:			
Investments in companies' shares	-	-	31
Depository receipt - DR	-	-	318
Total financial assets at fair value through profit or loss	202,260	-	16,724
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	1,304,974	-	-
Treasury bills of the Ministry of Finance	-	1,550,344	-
Accrued interest	15,194	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	532
Convertible bonds - CB	-	-	1,397
Accrued interest	-	-	247
Total debt instruments	1,320,168	1,550,344	2,176
Unlisted equity instruments:			
Investment in shares of foreign legal entities – SWIFT	-	45	-
Shares of foreign financial institutions – EIF	-	42,971	-
Total equity instruments	-	43,016	-
Total financial assets at fair value through other comprehensive income	1,320,168	1,593,360	2,176

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

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

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

Bank	31 December 2020		
	Level 1	Level 2	Level 3
	HRK '000	HRK '000	HRK '000
Financial assets at fair value through profit or loss:			
Loans at FVPL:			
Mezzanine loans	-	-	2,658
Investments in investment funds:			
Investments in investment funds at fair value through profit or loss	188,289	-	-
Equity instruments:			
Listed equity instruments:			
Investments in companies' shares	-	-	-
Unlisted equity instruments:			
Investments in companies' shares	-	-	31
Depository receipt - DR	-	-	319
Investment in financial institutions shares	-	161	-
Derivative financial assets-positive fair value			
FX swap	-	298	-
Total financial assets at fair value through profit or loss	188,289	459	3,008
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	1,469,742	-	-
Treasury bills of the Ministry of Finance	1,537,395	-	-
Accrued interest	17,219	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	564
Convertible bonds - CB	-	-	1,307
Accrued interest	-	-	391
Total debt instruments	3,024,356	-	2,262
Unlisted equity instruments:			
Investment in shares of foreign legal entities – SWIFT	-	43	-
Shares of foreign financial institutions – EIF	-	26,665	-
Total equity instruments	-	26,708	-
Total financial assets at fair value through other comprehensive income	3,024,356	26,708	2,262

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

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

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

33.1.1. Level 3 - fair value

a) Mezzanine loans

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

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

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

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

On 31 December 2021, the market price of ordinary shares of the debtor that the Bank could subscribe amounted to HRK 882 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 439 thousand, which represents the fair value of the mezzanine loan on 31 December 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 16,045 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 year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

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

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

33.1.1. Level 3 - fair value (continued)

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

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

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

ii) Sensitivity analysis of corporate bond with the stated potential effect on profit/loss as at 31 December 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 31 December 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 12.54%, the bond price would be 34.72%, which would result in an increase in HBOR's generated profits of HRK 11 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 16.54%, the bond price would be 33.34%, which would result in a decrease in HBOR's generated profits of HRK 10 thousand.

The change in interest rates defined in the "Decision on the Management of Interest Rate Risk in the Bank Book", which is applied when calculating standard interest rate shock, is used as the basis for the change in the market interest rate of 2% compared with the market terms and conditions in effect as at 31 December 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 thousand.

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

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

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

33.1.1. 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	2021 HRK '000	2020 HRK '000
Balance as at 1 January	2,658	2,234
Decrease/increase in fair value through profit or loss	(2,328)	424
Other	16,045	-
Balance as of 31 December	16,375	2,658

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

Group and Bank	2021 HRK '000	2020 HRK '000
Balance as at 1 January	2,262	3,097
Increase in fair value through other comprehensive income	(22)	(922)
Net foreign exchange	(14)	65
Accrued interest	(50)	22
Balance as of 31 December	2,176	2,262

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

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

33.2. Financial instruments not measured at fair value

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

Group 31 December 2021	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000	Total fair values HRK '000	Total carrying amount HRK '000
Assets					
Cash on hand and current accounts with banks	1,961,986	-	-	1,961,986	1,961,986
Deposits with other banks	-	7,500	-	7,500	7,500
Loans to financial institutions	-	-	7,073,126	7,073,126	7,050,143
Loans to other customers	-	-	7,912,813	17,912,813	15,964,376
	1,961,986	7,500	24,985,939	26,955,425	24,984,005
Liabilities					
Deposits from customers	-	960,541	-	960,541	960,541
Borrowings	-	-	16,634,493	16,634,493	16,115,237
	-	960,541	16,634,493	17,595,034	17,075,778
Group 31 December 2020					
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000	Total fair values HRK '000	Total carrying amount HRK '000
Assets					
Cash on hand and current accounts with banks	1,659,116	-	-	1,659,116	1,659,116
Deposits with other banks	-	7,337	-	7,337	7,337
Loans to financial institutions	-	-	8,954,380	8,954,380	8,842,580
Loans to other customers	-	-	16,947,347	16,947,347	14,796,179
	1,659,116	7,337	25,901,727	27,568,180	25,305,212
Liabilities					
Deposits from customers	-	974,393	-	974,393	974,393
Borrowings	-	-	17,848,829	17,848,829	16,863,935
	-	974,393	17,848,829	18,823,222	17,838,328

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

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

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

Bank	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2021	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets					
Cash on hand and current accounts with banks	1,958,620	-	-	1,958,620	1,958,620
Deposits with other banks	-	7,500	-	7,500	7,500
Loans to financial institutions	-	-	7,073,126	7,073,126	7,050,143
Loans to other customers	-	-	17,912,813	17,912,813	15,964,376
	1,958,620	7,500	24,985,939	26,952,059	24,980,639
Liabilities					
Deposits from customers	-	960,541	-	960,541	960,541
Borrowings	-	-	16,634,493	16,634,493	16,115,237
	-	960,541	16,634,493	17,595,034	17,075,778

Bank	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2020	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets					
Cash on hand and current accounts with banks	1,653,162	-	-	1,653,162	1,653,162
Deposits with other banks	-	7,337	-	7,337	7,337
Loans to financial institutions	-	-	8,954,380	8,954,380	8,842,580
Loans to other customers	-	-	16,947,347	16,947,347	14,796,179
	1,653,162	7,337	25,901,727	27,562,226	25,299,258
Liabilities					
Deposits from customers	-	974,393	-	974,393	974,393
Borrowings	-	-	17,848,829	17,848,829	16,863,935
	-	974,393	17,848,829	18,823,222	17,838,328

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

34. Reporting by segments

General information on segments is given in relation to business segments of the Group. Since the Group does not allocate administrative costs and interest by segments, the profitability of segments is not presented.

Assets and liabilities by segments are presented in net terms, i.e. gross after impairment and provisioning, and before the effect of mitigation through collateral received.

Business operations of segments are divided in terms of organisation and management. Each segment as a whole provides various products and services and operates in various markets.

Business segments:

The Group has following business segments:

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

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

34. Reporting by segments (continued)

	Banking activities	Insurance activities	Other activities	Unallocated	Total
Jan 1 – Dec 31, 2021	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Net interest income	491,557	1,254	-	-	492,811
Net fee income	23,448	1,426	1,892	-	26,766
Net income/(expenses) from financial operations	(11,837)	(56)	-	-	(11,893)
Net premiums earned	-	7,980	-	-	7,980
Other income	23,972	86	258	(266)	24,050
Income from operating activities	527,140	10,690	2,150	(266)	539,714
Operating costs	(177,054)	(6,536)	(1,803)	266	(185,127)
Impairment loss and provisions	(163,004)	(18)	9	-	(163,013)
Expenses for insured cases	-	(1,272)	-	-	(1,272)
Net change in provisions	-	(1,549)	-	-	(1,549)
Other expenses	-	(354)	-	-	(354)
Operating expenses	(340,058)	(9,729)	(1,794)	266	(351,315)
Profit before income tax	187,082	961	356	-	188,399
Income tax	-	(179)	(35)	-	(214)
Profit for the year	187,082	782	321	-	188,185
31 December 2021					
Assets of segment	28,249,988	63,867	1,162	(36,655)	28,278,362
Total assets	28,249,988	63,867	1,162	(36,655)	28,278,362
Liabilities of segment	17,682,259	19,187	160	(29)	17,701,577
Total equity	10,567,729	6,567	718	1,771	10,576,785
Total liabilities and total equity	28,249,988	25,754	878	1,742	28,278,362

Intra-group transactions are presented under "Unallocated".

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

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

for the year ended 31 December 2021 (continued)

(All amounts are expressed in HRK thousand)

34. Reporting by segments (continued)

	Banking activities	Insurance activities	Other activities	Unallocated	Total
Jan 1 – Dec 31, 2020	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Net interest income	377,151	1,118	-	-	378,269
Net fee income	22,969	1,210	1,880	-	26,059
Net income/(expenses) from financial operations	(3,034)	648	-	(726)	(3,112)
Net premiums earned	-	7,014	-	-	7,014
Other income	11,896	185	254	(265)	12,070
Income from operating activities	408,982	10,175	2,134	(991)	420,300
Operating costs	(147,474)	(5,861)	(1,726)	265	(154,796)
Impairment loss and provisions	(182,169)	(76)	(19)	-	(182,264)
Expenses for insured cases	-	(675)	-	-	(675)
Net change in provisions	-	(287)	-	-	(287)
Other expenses	-	(288)	-	-	(288)
Operating expenses	(329,643)	(7,187)	(1,745)	265	(338,310)
Profit before income tax	79,339	2,988	389	(726)	81,990
Income tax	-	(459)	-	-	(459)
Profit for the year	79,339	2,529	389	(726)	81,531
31 December 2020					
Assets of segment	28,680,360	61,390	1,441	(36,649)	28,706,542
Total assets	28,680,360	61,390	1,441	(36,649)	28,706,542
Liabilities of segment	18,325,736	16,903	162	(24)	18,342,777
Total equity	10,354,624	6,968	999	1,174	10,363,765
Total liabilities and total equity	28,680,360	23,871	1,161	1,150	28,706,542

Intra-group transactions are presented under "Unallocated"

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

35. Capital management

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

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

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

Regulatory capital is comprised of core capital minus debit items.

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

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

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

	31 December 2021 HRK '000	Group 31 December 2020 HRK '000	31 December 2021 HRK '000	Bank 31 December 2020 HRK '000
Total regulatory capital	10,310,733	10,076,599	10,310,068	10,074,668
Credit risk weighted exposure amount	14,243,551	15,868,462	14,237,375	15,862,444
Credit requirements for operating risk	849,144	787,800	827,476	767,635
Capital requirements for currency risk	749,598	-	719,956	-
Total capital requirements	15,842,293	16,656,262	15,784,807	16,630,079
Capital adequacy ratio	65.08	60.50	65.32	60.58
	HRK '000	HRK '000	HRK '000	HRK '000
Own funds needed for ensuring capital adequacy according to regulatory requirements	1,901,075	1,998,751	1,894,177	1,995,609

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2021 (continued)
(All amounts are expressed in HRK thousand)

36. Earnings per share

Pursuant to the HBOR Act, the equity capital of the Bank consists of one share in the company that may not be divided, transferred or pledged and is owned solely by the Republic of Croatia.

For the purpose of calculation of earnings per share, earning is presented as net profit after taxation.

37. Events after the reporting period date

Following the Russian invasion of Ukraine on 24 February 2022, the European Union and the United States of America imposed a package of sanctions against the Russian Federation and the Republic of Belarus, as well as certain legal entities and natural persons.

The Group and the Bank have direct and indirect exposure to entities from Ukraine, the Russian Federation, the Republic of Belarus, as well as legal entities and natural persons to which sanctions have been imposed. However, the Group and the Bank do not expect material adverse effects as a result of these events in short term. A longer duration of the current situation in Ukraine could indirectly lead to a deterioration in the quality of the loan portfolio to a lesser extent, but the Group and the Bank do not expect that such losses could materially affect their solvency and liquidity as a result of strong capital position and stable financial position on one hand, and a prudent approach in approving placements and high collateralisation on the other.

The Group's exposure as at 31 December 2021 on the basis of insurance and loans to Belarus, the Russian Federation and Ukraine amounts to HRK 174,368 thousand, and HBOR's exposure on the basis of loans to a foreign legal entity in Belarus amounts to HRK 130,268 thousand.

As at 28 February 2022, the exposure of the Group under the stated parameters to these three countries amounted to HRK 146,722 thousand and that of HBOR to HRK 126,652 thousand, which was reduced to HRK 140,040 thousand for the Group and to HRK 122,070 thousand for HBOR after payments in March.

Appendix - financial performance of the HKO Group
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December

(All amounts are expressed in HRK thousand)

	2021 HRK '000	2020 HRK '000
Premium earned		
Gross premium written	17,613	13,079
Premium impairment allowance originated and reserved on collection	(18)	(37)
Gross outward reinsurance premium	(8,046)	(5,938)
Net premium written	9,549	7,104
Changes in the gross unearned premium reserve	(2,993)	(339)
Changes in the gross unearned premium reserve, reinsurer's share	1,424	249
Net premium earned	7,980	7,014
Fee and commission income	3,318	3,090
Net investment income	1,206	973
Other operating income	78	174
Net income	12,582	11,251
Gross expense for returned premiums	(640)	(589)
Reinsurer's share	286	301
Gross reserve for returned premiums	(606)	(306)
Reinsurer's share	295	155
Net expense and reserve for returned premiums	(665)	(439)
Claims incurred	(2,290)	(972)
Claims incurred, reinsurer's share	1,018	298
Change in the claims provision	(1,004)	(402)
Change in the claims provision, reinsurer's share	(234)	266
Net claims incurred	(2,510)	(810)
Marketing and provision expenses	(453)	(569)
Administrative expenses	(7,593)	(6,740)
Other operating expenses	(36)	(109)
Net exchange differences other than those on financial instruments	(8)	67
Profit before income tax	1,317	2,651
Income tax	(214)	(459)
Profit for the year	1,103	2,192
Other comprehensive income		
Items that are not transferred subsequently to profit or loss:		
Total items that are not transferred subsequently to profit or loss	-	-
Items that may be reclassified subsequently to profit or loss:		
Gains on revaluation of financial assets available for sale	764	1,707
Decrease in the fair value of financial assets available for sale	(2,213)	(2,113)
Transfer of realized gains on asset available for sale to profit or loss	-	(253)
Deferred tax	262	121
Total items that may be reclassified subsequently to profit or loss:	(1,187)	(538)
Other comprehensive income after income tax	(1,187)	(538)
Total comprehensive income after income tax	(84)	1,654
Attributable to:		
Equity holder of the parent	(84)	1,654

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

Appendix - financial performance of the HKO Group
Statement of Financial Position
as of 31 December

(All amounts are expressed in HRK thousand)

	2021 HRK '000	2020 HRK '000
Assets		
Non-current assets		
Property and equipment	825	594
Intangible assets	439	262
Total non-current assets	1,264	856
Current assets		
Investments available for sale	56,826	52,437
Receivables from insurance operations	2,361	2,497
Other receivables	683	562
Cash and cash equivalents	3,366	5,955
Total current assets	63,236	61,451
Total assets	64,500	62,307
Equity and liabilities		
Equity		
Share capital	37,500	37,500
Retained earnings and reserves	3,941	1,749
Other reserves	2,638	3,825
Profit for the year	1,103	2,192
Total equity	45,182	45,266
Technical provisions		
Gross technical provisions	23,861	19,258
Technical provisions, reinsurer's share	(10,317)	(8,832)
	13,544	10,426
Current liabilities		
Liabilities from insurance operations	2,568	3,380
Other liabilities	3,206	3,235
Total liabilities	5,774	6,615
Total equity and liabilities	64,500	62,307

Appendix - financial performance of the HKO Group
Statement of Cash Flows
for the year ended 31 December
(All amounts are expressed in HRK thousand)

	2021 HRK '000	2020 HRK '000
Operating activities		
Profit before income tax	1,317	2,651
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>		
Depreciation	314	322
Impairment loss and provisions	26	133
Income tax	(369)	(214)
Accrued interest	19	36
Other	(22)	42
<i>Operating profit before working capital changes</i>	<i>1,285</i>	<i>2,970</i>
Changes in operating assets and liabilities:		
Net realized (gain)/loss on assets available for sale	-	279
Decrease of discount in assets available for sale and assets held to maturity	91	110
Net gain on financial assets at fair value through profit or loss	-	122
Premium receivables	118	2,797
Net decrease/(increase) in other assets	(168)	(136)
Net decrease of assets and liabilities from insurance operations	(812)	89
Net increase in technical provisions	3,118	377
Net increase in other liabilities	383	(233)
Net cash provided from operating activities	4,015	6,375
Investment activities		
Net sale of financial assets at fair value through profit or loss	-	9,747
Net purchase of assets available for sale	(8,003)	(16,511)
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	(661)	(79)
Net cash (used in) investment activities	(6,664)	(3,049)
Effect of foreign currency to cash and cash equivalents		
Net foreign exchange	56	(286)
Net effect	56	(286)
Net (decrease)/increase in cash and cash equivalents	(2,593)	3,040
Balance as of 1 January	5,964	2,924
Net (decrease)/increase in cash	(2,593)	3,040
Balance as of 31 December	3,371	5,964

Appendix - financial performance of the HKO Group
Statement of Changes in Equity
for the year ended 31 December
(All amounts are expressed in HRK thousand)

	Share capital HRK '000	Retained earnings and reserves HRK '000	Other reserves HRK '000	Profit/(loss) for the year HRK '000	Total equity attributable to the equity holders of the Company HRK '000	Total equity HRK '000
Balance as of 1 January 2020	37,500	2,501	4,363	(752)	43,612	43,612
Profit for the year	-	-	-	2,192	2,192	2,192
Other comprehensive income	-	-	(538)	-	(538)	(538)
Total comprehensive income	-	-	(538)	2,192	1,654	1,654
Transfer of profit 2019 to retained earnings	-	(752)	-	752	-	-
Balance as of 31 December 2020	37,500	1,749	3,825	2,192	45,266	45,266
Profit for the year	-	-	-	1,103	1,103	1,103
Other comprehensive income	-	-	(1,187)	-	(1,187)	(1,187)
Total comprehensive income	-	-	(1,187)	1,103	(84)	(84)
Covering of loss from 2020 from retained earnings	-	2,192	-	(2,192)	-	-
Balance as of 31 December 2021	37,500	3,941	2,638	1,103	45,182	45,182