**CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT**

**Condensed Separate and Consolidated Interim Financial Statements for the Period 1 January – 30 June 2020**

Zagreb, September 2020

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We confirm that, to the best of our knowledge, the condensed separate interim financial statements of the Croatian Bank for Reconstruction and Development (“the Bank” or “HBOR”) and condensed consolidated interim financial statements of the Croatian Bank for Reconstruction and Development Group (“the Group”) set out on pages 11 to 139 have been prepared in accordance with International Accounting Standard 34: “Interim Financial Reporting” applicable for the preparation of interim financial statements, and give a true and fair view of assets, liabilities, financial position, financial performance and cash flows for the reporting period.

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

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

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

The Condensed separate and consolidated interim financial statements on pages 11 to 139 have been approved by the Management Board on 30 September 2020 as confirmed by the signatures below.

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

|  |  |  |
| --- | --- | --- |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| Vedran Jakšić, MSc |  | Marin Pranjić |
|  |  |  |
| **Senior Executive Director** |  | **Accounting Division Executive**  **Director** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  |  |  | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| Tamara Perko, MSc |  |  |  | Hrvoje Čuvalo, MSc |
|  |  |  |  |  |
| **President of the Management**  **Board** |  |  |  | **Member of the**  **Management Board** |

Zagreb, 30 September 2020

**Report on the Audit of the Condensed Separate and Consolidated Interim Financial Statements**

***Opinion***

We have audited the condensed separate financial statements of Croatian Bank for Reconstruction and Development (“the Bank”) and condensed consolidated financial statements of the Bank and its subsidiaries (“the Group”), which comprise respective separate and consolidated statements of financial position as at 30 June 2020, and their respective separate and consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity for the six-month period then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as “the condensed financial statements”).

In our opinion, the accompanying condensed financial statements of the Bank and the Group, as at 30 June 2020 and for the six-month period then ended, are prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

***Basis for Opinion***

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors’ Responsibilities for the Audit of the Condensed Financial Statements* section of our report. We are independent of the Bank and the Group in accordance with the ethical requirements that are relevant to our audit of the condensed 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.

**Report on the Audit of the Condensed Separate and Consolidated Interim Financial Statements *(continued)***

***Key Audit Matters***

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

|  |  |
| --- | --- |
| **Impairment of loans to other customers** | |
| As at 30 June 2020, in the condensed interim financial statements of the Bank and the Group, gross loans to other customers: HRK 16,404 million, related impairment allowance: HRK 3,430 million and impairment loss recognised in the income statement for the six-month period then ended: HRK 16 million (31 December 2019: gross loans to other customers: HRK 17,064 million, impairment allowance: HRK 3,365 million; impairment loss recognised in the income statement for the six-month period ended 30 June 2019: HRK 218 million).  Please refer to note *1.3 Impact of COVID-19 on HBOR's business and implementation of proposed measures to assist the economy in the coronavirus outbreak*, note 4 *Summary of significant accounting policies*, note 8 *Impairment loss and provisions*, note 12 *Loans to other customers*, and credit risk section of the note 25 *Risk management*. | |
| **Key audit matter** | **How our audit addressed the matter** |
| Loss allowances represent the Management Board’s best estimate of the expected credit losses (“ECLs”) within loans to other customers at the reporting date. We focused on this area as the determination of loss allowances requires a significant judgment over the amounts of any such impairment.  Impairment allowances for performing exposures (Stage 1 and Stage 2) and non-performing exposures (Stage 3) up to HRK 1.5 million individually are determined by modelling techniques (“collective impairment allowance”). Historical experience, identification of exposures with significant deterioration in credit quality, forward-looking information and management judgment are incorporated into the model assumptions.  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. | Our audit procedures in this area included, among others:   * Assisted by our own financial instruments specialists, inspecting the Bank’s and the Group’s impairment provisioning methodology and assessing its compliance with the relevant requirements of the financial reporting standards; * Inquiring of the risk management and information technology (IT) personnel to update our understanding of the 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, assisted by our own IT specialists; * Assessing and testing the design, implementation and operating effectiveness of selected key 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; |

**Report on the Audit of the Condensed Separate and Consolidated Interim Financial Statements *(continued)***

***Key Audit Matters (continued)***

|  |  |
| --- | --- |
| **Key audit matter** | **How our audit addressed the matter** |
| The World Health Organization declared on 11 March 2020 the coronavirus (COVID-19) outbreak a pandemic. As discussed in Note 1.3, to mitigate the impact of the outbreak, the Government of Croatia have launched aid initiatives for the hardest hit sectors and customers by implementing various sets of measures and making financing and liquidity facilities more flexible. All of these aspects have an impact on the PD’s considered by the Bank and Group when quantifying the ECLs.  For the above reasons, impairment of loans to other customers was considered by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered the area to be our key audit matter. | * On a sample basis, assessing and recalculating PD, LGD, EAD and ECL parameters and tracing the outcome of our independent assessment to the parameters used in the ECL calculations by the Bank and the Group, referred to below.   For loss allowances calculated individually:   * Selecting a sample of individual exposures, with focus on those from the economic sectors most affected by COVID-19, 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 30 June 2020; * For those loans where triggers for classification in Stage 2 were identified, developing an independent estimate of the related ECL by using the parameters for Stage 2 exposures as determined by the Bank and the Group and as tested by us on a sample basis; * 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. We sought the Management Board’s explanations for any material discrepancies identified as a result of the above procedures. |

**Report on the Audit of the Condensed Separate and Consolidated Interim Financial Statements *(continued)***

***Key Audit Matters (continued)***

|  |  |
| --- | --- |
| **Key audit matter** | **How our audit addressed the matter** |
|  | For loss allowances calculated on a collective basis:   * 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 information, while also taking into account the situation arising from the COVID-19 pandemic; * For a sample of exposures: * Tracing EAD data on exposures back to contractual data; * Challenging LGD and PD parameters, assessed as significant, by performing stress test scenarios for existing PD and LGD parameters of the Bank and Group; * Obtaining Bank’s and the Group’s results of back testing performed and seeking the Management Board’s explanations for any material discrepancies identified; * Assessing the appropriateness of the staging, also considering COVID-19 measures and impact.   For loss allowances in total:   * Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposure in total gross exposure, and the non-performing loans provision coverage, while also taking into account the situation arising from the COVID-19 pandemic; * Evaluating the accuracy and completeness of the related financial statement disclosures. |

**Report on the Audit of the Condensed Separate and Consolidated Interim Financial Statements *(continued)***

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

Management is responsible for the preparation of the condensed financial statements in all material respects in accordance with IAS 34 Interim Financial Reporting, and for such internal control as management determines is necessary to enable the preparation of the condensed financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the condensed 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 and/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 Condensed Financial Statements***

Our objectives are to obtain reasonable assurance about whether the condensed 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 ISAs 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 condensed financial statements.

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

* Identify and assess the risks of material misstatement of the condensed 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/or the Group’s internal controls.
* Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

**Report on the Audit of the Condensed Separate and Consolidated Interim Financial Statements *(continued)***

***Auditors’ Responsibilities for the Audit of the Condensed Financial Statements (continued)***

* 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/or 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 condensed 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 the Group to cease to continue as a going concern.
* Evaluate the overall presentation, structure and content of the condensed financial statements, including the disclosures, and whether the condensed 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 condensed financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the condensed 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**

We were appointed by those charged with governance on 14 March 2018 to audit the condensed financial statements of the Bank and the Group for the six-month period ended 30 June 2020. Our total uninterrupted period of engagement is 2 years, covering the periods ending 30 June 2018 to 30 June 2020.

We confirm that:

* our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank dated 29 September 2020;
* for the period to which our statutory audit relates, we have not provided any non-audit services (NASs), hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

|  |  |
| --- | --- |
| ***KPMG Croatia d.o.o. za reviziju*** | **30 September 2020** |
| Croatian Certified Auditors |  |
| Eurotower, 17th floor |  |
| Ivana Lučića 2a |  |
| 10000 Zagreb | Katarina Kecko |
| Croatia | *Director, Croatian Certified Auditor* |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **2020** | | **2019** | |
|  | **Notes** | **Current period**  **April 1 – June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 – June 30** | **Cumulatively**  **January 1 – June 30** |
|  |  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |
| Interest income calculated using the effective interest method | 5 | 151,597 | 312,119 | 158,683 | 321,983 |
| Interest expense | 6 | (61,593) | (134,352) | (78,746) | (160,508) |
| **Net interest income** |  | **90,004** | **177,767** | **79,937** | **161,475** |
|  |  |  |  |  |  |
| Fee and commission income |  | 6,180 | 12,179 | 6,713 | 14,497 |
| Fee and commission expense |  | (326) | (617) | (1,512) | (1,883) |
| **Net fee and commission income** |  | **5,854** | **11,562** | **5,201** | **12,614** |
|  |  |  |  |  |  |
| Net gains/(losses) on financial operations |  | 7,850 | (11,226) | 6,379 | 9,927 |
| Other income |  | 3,429 | 7,247 | 4,387 | 7,140 |
|  |  | **107,137** | **185,350** | **95,904** | **191,156** |
|  |  |  |  |  |  |
| Employee expenses | 7 a) | (23,774) | (47,217) | (23,555) | (46,936) |
| Depreciation and amortization | 7 b) | (2,372) | (4,575) | (1,845) | (3,712) |
| Other expenses | 7 c) | (10,070) | (22,539) | (20,282) | (32,627) |
| Impairment loss and provisions | 8 | (75,728) | (93,367) | 5,767 | (30,248) |
| **Profit/(loss) before income tax** |  | **(4,807)** | **17,652** | **55,989** | **77,633** |
| Income tax |  | (1) | (229) | (70) | (103) |
| **Profit/(loss) for the period** |  | **(4,808)** | **17,423** | **55,919** | **77,530** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| **Profit/(loss) attributable to:** |  |  |  |  |  |
| **Owner of the Bank** |  | **(4,808)** | **17,423** | **55,919** | **77,530** |

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2020** | | **2019** | |
|  | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |
| **Profit/(loss) for the period** | **(4,808)** | **17,423** | **55,919** | **77,530** |
|  |  |  |  |  |
| **Other comprehensive income** |  |  |  |  |
| **Items that are not transferred subsequently to profit or loss:** |  |  |  |  |
| Deferred tax-adjustment for previous period | - | - | - | - |
| **Total items that are not transferred subsequently to profit or loss** | **-** | **-** | **-** | **-** |
|  |  |  |  |  |
| **Items that may be reclassified subsequently to profit or loss:** |  |  |  |  |
| Net changes in financial assets at fair value through other comprehensive income | (1,152) | (21,789) | 6,841 | 17,782 |
| Net foreign exchange on equity instruments | (177) | 410 | (112) | (86) |
| Deferred tax – other comprehensive income | 13 | 183 | (121) | (237) |
| **Total items that may be reclassified subsequently to profit or loss** | **(1,316)** | **(21,196)** | **6,608** | **17,459** |
|  |  |  |  |  |
| **Other comprehensive income/(loss) after income tax** | **(1,316)** | **(21,196)** | **6,608** | **17,459** |
|  |  |  |  |  |
| **Total comprehensive income/(loss) after income tax** | **(6,124)** | **(3,773)** | **62,527** | **94,989** |
| **Income/(loss) attributable to:** |  |  |  |  |
| **Owner of the Bank** | **(6,124)** | **(3,773)** | **62,527** | **94,989** |
|  |  |  |  |  |

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

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Jun 30, 2020** | **Dec 31, 2019** |
|  | **Notes** | **HRK ‘000** | **HRK ‘000** |
| **Assets** |  |  |  |
| Cash on hand and current accounts with banks | 9 | 2,490,818 | 884,407 |
| Deposits with other banks | 10 | 131,894 | 553,470 |
| Loans to financial institutions | 11 | 9,107,681 | 9,447,706 |
| Loans to other customers | 12 | 12,973,711 | 13,699,634 |
| Financial assets at fair value through profit or loss | 13 | 183,057 | 203,833 |
| Financial assets at fair value through other comprehensive income | 14 | 2,327,471 | 1,578,810 |
| Debt instruments at amortized cost | 15 | - | 457 |
| Investments in associates |  | - | - |
| Property, plant and equipment and intangible assets |  | 48,630 | 48,281 |
| Foreclosed assets | 16 | 23,606 | 24,198 |
| Other assets | 17 | 36,594 | 29,815 |
| **Total assets** |  | **27,323,462** | **26,470,611** |
| **Liabilities** |  |  |  |
| Deposits from customers | 18 | 370,550 | 176,769 |
| Borrowings | 19 | 16,147,581 | 14,400,453 |
| Debt securities issued | 20 | - | 1,158,291 |
| Provisions for guarantees, commitments and other liabilities | 21 | 151,144 | 120,780 |
| Other liabilities | 22 | 358,188 | 339,737 |
| **Total liabilities** |  | **17,027,463** | **16,196,030** |
| **Equity** |  |  |  |
| Founder’s capital |  | 7,134,632 | 7,109,632 |
| Retained earnings and reserves |  | 3,076,153 | 2,921,855 |
| Other reserves |  | 55,414 | 76,610 |
| Profit for the period |  | 17,423 | 154,298 |
| Guarantee fund |  | 12,377 | 12,186 |
| **Total equity** |  | **10,295,999** | **10,274,581** |
| **Total liabilities and total equity** |  | **27,323,462** | **26,470,611** |

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

|  |  |  |
| --- | --- | --- |
|  | **2020** | **2019** |
| **Notes** | **HRK ‘000** | **HRK ‘000** |
| **Operating activities** |  |  |
| Profit before income tax | 17,652 | 77,633 |
| *Adjustments to reconcile to net cash from and used in operating activities:* |  |  |
| Depreciation and amortization | 4,575 | 3,712 |
| Income tax | (229) | (103) |
| Impairment loss and provisions | 93,367 | 30,276 |
| Accrued interest | (145,710) | (73,995) |
| Deferred fees | (1,395) | (1,006) |
| Other changes in assets at fair value | (936) | (2,024) |
| *(Operating loss)/profit before working capital changes* | *(32,676)* | *34,493* |
| *Changes in operating assets and liabilities:* |  |  |
| Net decrease/(increase) in deposits with other banks, before impairment | 422,206 | (69,803) |
| Net decrease/(increase) in loans to financial institutions, before impairment | 353,316 | (52,325) |
| Net decrease/(increase) in loans to other customers, before loss impairment | 763,029 | (908,991) |
| Decrease of discount in debt securities issued and financial assets at fair value through other comprehensive income | 1,545 | 1,883 |
| Net decrease/(increase) in foreclosed assets | 592 | (2,183) |
| Net increase in other assets, before impairment | (9,136) | (4,218) |
| Net increase in deposits from banks and companies | 193,781 | 580,410 |
| Net increase/(decrease) in other liabilities, before provisions | 18,144 | (23,244) |
| **Net cash provided from/(used in) operating activities** | **1,710,801** | **(443,978)** |
|  |  |  |
| **Investment activities** |  |  |
| Purchase of financial assets at fair value through profit or loss | (1,263) | - |
| Sale of financial assets at fair value through profit or loss | 20,847 | - |
| Other changes in financial assets at fair value through profit or loss | - | (67) |
| Purchase of financial assets at fair value through other comprehensive income | (1,219,322) | (487,141) |
| Sale of financial assets at fair value through other comprehensive income | 449,346 | 1,616,397 |
| Sale of debt instruments at amortized cost | 448 | - |
| Purchase of property, plant and equipment and intangible assets | (3,873) | (1,245) |
| **Net cash (used in)/provided from investment activities** | **(753,817)** | **1,127,944** |
|  |  |  |
| **Financing activities** |  |  |
| Increase in founder’s capital | 25,000 | 25,000 |
| Increase in borrowings – withdrawn funds | 3,042,715 | 1,576,108 |
| Decrease in borrowings – repayments of principal | (1,503,478) | (2,336,476) |
| Decrease in bonds payable - repayment | (1,135,104) | - |
| Other | (205) | 3 |
| **Net cash provided from/(used in) financing activities** | **428,928** | **(735,365)** |
|  |  |  |
| **Effect of foreign currency to cash and cash equivalents** |  |  |
| Net foreign exchange | 221,967 | (42,770) |
| **Net effect** | **221,967** | **(42,770)** |
|  |  |  |
| Net increase/(decrease) in cash and cash equivalents | 1,607,879 | (94,169) |
|  |  |  |
| Cash and cash equivalents balance as of 1 January, before impairment | 884,890 | 946,085 |
| Net increase/(decrease) in cash and cash equivalents | 1,607,879 | (94,169) |
| **Cash and cash equivalents balance as of 30 June before impairment 9** | **2,492,769** | **851,916** |
| **Additional note - Operational cash flows** |  |  |
| Interest paid | 175,913 | 189,667 |
| Interest received | 177,538 | 248,463 |

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Founder’s capital** | **Retained earnings and reserves** | **Other**  **reserves** | **Net profit**  **for the period** | **Guarantee fund** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Balance as at 1 January 2019** | **7,059,632** | **2,717,118** | **67,474** | **204,737** | **12,146** | **10,061,107** |
|  |  |  |  |  |  |  |
| Profit for the period | - | - | - | 77,530 | - | **77,530** |
| Other comprehensive income | - | - | 17,459 | - | - | **17,459** |
| Total comprehensive income | - | - | 17,459 | 77,530 | - | **94,989** |
| Net foreign exchange – Guarantee fund | - | - | - | - | (40) | **(40)** |
| Capital paid-in from the State Budget | 25,000 | - | - | - | - | **25,000** |
| Transfer of profit 2018 to  retained earnings | - | 204,737 | - | (204,737) | - | **-** |
| **Balance as at 30 June 2019** | **7,084,632** | **2,921,855** | **84,933** | **77,530** | **12,106** | **10,181,056** |
|  |  |  |  |  |  |  |
| **Balance as at 1 January 2020** | **7,109,632** | **2,921,855** | **76,610** | **154,298** | **12,186** | **10,274,581** |
| Profit for the period | - | - | - | 17,423 | - | **17,423** |
| Other comprehensive income | - |  | (21,196) | - | - | **(21,196)** |
| Total comprehensive income | - | - | (21,196) | 17,423 | - | **(3,773)** |
| Net foreign exchange – Guarantee fund | - | - | - | - | 191 | **191** |
| Capital paid-in from the State Budget | 25,000 | - | - | - | - | **25,000** |
| Transfer of profit 2019 to retained earnings | - | 154,298 | - | (154,298) |  | **-** |
|  |  |  |  |  |  |  |
| **Balance as at 30 June 2020** | **7,134,632** | **3,076,153** | **55,414** | **17,423** | **12,377** | **10,295,999** |

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **2020** | | **2019** | |
|  | **Notes** | **Current period**  **April 1 – June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 – June 30** | **Cumulatively**  **January 1 – June 30** |
|  |  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |
| Interest income calculated using the effective interest method | 5 | 151,319 | 311,542 | 158,351 | 321,322 |
| Interest expense | 6 | (61,584) | (134,333) | (78,745) | (160,505) |
| **Net interest income** |  | **89,735** | **177,209** | **79,606** | **160,817** |
|  |  |  |  |  |  |
| Fee and commission income |  | 5,432 | 10,739 | 6,002 | 13,089 |
| Fee and commission expense |  | (326) | (617) | (1,512) | (1,883) |
| **Net fee and commission income** |  | **5,106** | **10,122** | **4,490** | **11,206** |
|  |  |  |  |  |  |
| Net gains/(losses) on financial operations |  | 7,935 | (11,218) | 6,343 | 9,758 |
| Other income |  | 1,579 | 3,757 | 2,961 | 4,221 |
|  |  | **104,355** | **179,870** | **93,400** | **186,002** |
|  |  |  |  |  |  |
| Employee expenses | 7 a) | (22,649) | (45,105) | (22,601) | (45,093) |
| Depreciation and amortization | 7 b) | (2,272) | (4,385) | (1,836) | (3,695) |
| Other expenses | 7 c) | (9,423) | (20,966) | (18,669) | (29,605) |
| Impairment loss and provisions | 8 | (75,775) | (93,425) | 5,502 | (30,550) |
| **Profit/(loss) before income tax** |  | **(5,764)** | **15,989** | **55,796** | **77,059** |
|  |  |  |  |  |  |
| Income tax |  | - | - | - | - |
| **Profit/(loss) for the period** |  | **(5,764)** | **15,989** | **55,796** | **77,059** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| **Profit/(loss) attributable to:** |  |  |  |  |  |
| **Owner of the Bank** |  | **(5,764)** | **15,989** | **55,796** | **77,059** |

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2020** | | **2019** | |
|  | **Current period**  **April 1 – June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 – June 30** | **Cumulatively**  **January 1 – June 30** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |
| **Profit/(loss) for the period** | **(5,764)** | **15,989** | **55,796** | **77,059** |
| **Other comprehensive income** |  |  |  |  |
| **Items that may be reclassified subsequently to profit or loss:** |  |  |  |  |
| Net changes in financial assets at fair value through other comprehensive income | (1,077) | (20,771) | 6,380 | 16,674 |
| Net foreign exchange on equity instruments | (177) | 410 | (112) | (86) |
| **Total items that may be reclassified subsequently to profit or loss** | **(1,254)** | **(20,361)** | **6,268** | **16,588** |
| **Other comprehensive income after income/(loss) tax** | **(1,254)** | **(20,361)** | **6,268** | **16,588** |
| **Total comprehensive income/(loss) after income tax** | **(7,018)** | **(4,372)** | **62,064** | **93,647** |
|  |  |  |  |  |
| **Profit/(loss) attributable to:** |  |  |  |  |
| **Owner of the Bank** | **(7,018)** | **(4,372)** | **62,064** | **93,647** |

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

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Jun 30,**  **2020** | **Dec 31, 2019** |
|  | **Notes** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |
| **Assets** |  |  |  |
| Cash on hand and current accounts with banks | 9 | 2,475,962 | 881,487 |
| Deposits with other banks | 10 | 131,894 | 553,470 |
| Loans to financial institutions | 11 | 9,107,681 | 9,447,706 |
| Loans to other customers | 12 | 12,973,711 | 13,699,634 |
| Financial assets at fair value through profit or loss | 13 | 183,057 | 193,994 |
| Financial assets at fair value through other comprehensive income | 14 | 2,288,727 | 1,538,641 |
| Investments in subsidiaries |  | 36,124 | 36,124 |
| Investments in associates |  | - | - |
| Property, plant and equipment and intangible assets |  | 47,498 | 47,309 |
| Foreclosed assets | 16 | 23,606 | 24,198 |
| Other assets | 17 | 30,772 | 23,922 |
| **Total assets** |  | **27,299,032** | **26,446,485** |
| **Liabilities** |  |  |  |
| Deposits from customers | 18 | 370,550 | 176,769 |
| Borrowings | 19 | 16,147,581 | 14,400,453 |
| Debt securities issued | 20 | - | 1,158,291 |
| Provisions for guarantees, commitments and other liabilities | 21 | 151,031 | 120,631 |
| Other liabilities | 22 | 341,957 | 323,247 |
| **Total liabilities** |  | **17,011,119** | **16,179,391** |
| **Equity** |  |  |  |
| Founder’s capital |  | 7,134,632 | 7,109,632 |
| Retained earnings and reserves |  | 3,074,406 | 2,919,356 |
| Other reserves |  | 50,509 | 70,870 |
| Profit for the period |  | 15,989 | 155,050 |
| Guarantee fund |  | 12,377 | 12,186 |
| **Total equity** |  | **10,287,913** | **10,267,094** |
| **Total liabilities and total equity** |  | **27,299,032** | **26,446,485** |

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

|  |  |  |
| --- | --- | --- |
|  | **2020** | **2019** |
| **Notes** | **HRK ‘000** | **HRK ‘000** |
| **Operating activities** |  |  |
| Profit before income tax | 15,989 | 77,059 |
| *Adjustments to reconcile to net cash from and used in operating activities:* |  |  |
| Depreciation and amortization | 4,385 | 3,695 |
| Impairment loss and provisions | 93,425 | 30,550 |
| Accrued interest | (145,778) | (73,998) |
| Deferred fees | (1,395) | (1,006) |
| Other changes in assets at fair value | (1,215) | (2,115) |
| *Operating (loss)/profit before working capital changes* | *(34,589)* | *34,185* |
| *Changes in operating assets and liabilities:* |  |  |
| Net decrease/(increase) in deposits with other banks, before impairment | 422,206 | (69,803) |
| Net decrease/(increase) in loans to financial institutions, before impairment | 353,316 | (52,325) |
| Net decrease/(increase) in loans to other customers, before impairment | 763,029 | (908,991) |
| Decrease of discount in debt securities issued and financial assets at fair value through other comprehensive income | 1,411 | 1,875 |
| Net decrease/(increase) in foreclosed assets | 592 | (2,183) |
| Net increase in other assets, before impairment | (9,540) | (3,955) |
| Net increase in deposits from banks and companies | 193,781 | 580,410 |
| Net increase/(decrease) in other liabilities, before provisions | 18,710 | (25,272) |
| **Net cash provided from/(used in) operating activities** | **1,708,916** | **(446,059)** |
|  |  |  |
| **Investment activities** |  |  |
| Purchase of financial assets at fair value through profit or loss income | (1,263) | - |
| Sale of financial assets at fair value through profit or loss | 11,100 | - |
| Other changes in financial assets at fair value through profit or loss | - | 161 |
| Purchase of financial assets at fair value through other comprehensive income | (1,216,278) | (487,141) |
| Sale of financial assets at fair value through other comprehensive income | 446,000 | 1,616,397 |
| Purchase of property, plant and equipment and intangible assets | (3,524) | (1,130) |
| **Net cash (used in)/provided from investment activities** | **(763,965)** | **1,128,287** |
|  |  |  |
| **Financing activities** |  |  |
| Increase in founder’s capital | 25,000 | 25,000 |
| Increase in borrowings – withdrawn funds | 3,042,715 | 1,576,108 |
| Decrease in borrowings – repayments of principle | (1,503,478) | (2,336,476) |
| Decrease in bonds payable - repayment | (1,135,104) | - |
| Other | (337) | 3 |
| **Net cash provided from/(used in) financing activities** | **428,796** | **(735,365)** |
|  |  |  |
| **Effect of foreign currency to cash and cash equivalents** |  |  |
| Net foreign exchange | 222,177 | (42,836) |
| **Net effect** | **222,177** | **(42,836)** |
|  |  |  |
| Net increase/(decrease) in cash and cash equivalents | 1,595,924 | (95,973) |
|  |  |  |
| Cash and cash equivalents balance as of 1 January, before impairment | 881,966 | 942,722 |
| Net increase/(decrease) in cash and cash equivalents | 1,595,924 | (95,973) |
| **Cash and cash equivalents balance as at 30 June before** **impairment 9** | **2,477,890** | **846,749** |
|  |  |  |
| **Additional note – operating activities** |  |  |
| Interest paid | 175,913 | 189,667 |
| Interest received | 176,841 | 247,723 |

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Founder’s capital** | **Retained earnings and reserves** | **Other**  **reserves** | **Net profit**  **for the period** | **Guarantee fund** | **Total**  **equity** |
|  |  |  |  |  |  |  |
| **Balance as at 1 January 2019** | **7,059,632** | **2,715,028** | **62,878** | **204,328** | **12,146** | **10,054,012** |
| Profit for the period | - | - | - | 77,059 | - | **77,059** |
| Other comprehensive income | - | - | 16,588 | - | - | **16,588** |
| Total comprehensive income | - | - | 16,588 | 77,059 | - | **93,647** |
| Net foreign exchange – Guarantee fund | - | - | - | - | (40) | **(40)** |
| Capital paid-in from the State Budget | 25,000 | - | - | - | - | **25,000** |
| Transfer of profit 2018 to  retained earnings | - | 204,328 | - | (204,328) | - | **-** |
| **Balance as at 30 June 2019** | **7,084,632** | **2,919,356** | **79,466** | **77,059** | **12,106** | **10,172,619** |
|  |  |  |  |  |  |  |
| **Balance as at 1 January 2020** | **7,109,632** | **2,919,356** | **70,870** | **155,050** | **12,186** | **10,267,094** |
| Profit for the period | - | - | - | 15,989 | - | **15,989** |
| Other comprehensive income | - | - | (20,361) | - | - | **(20,361)** |
| Total comprehensive income | - | - | (20,361) | 15,989 | - | **(4,372)** |
| Net foreign exchange – Guarantee fund | - | - | - | - | 191 | **191** |
| 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 30 June 2020** | **7,134,632** | **3,074,406** | **50,509** | **15,989** | **12,377** | **10,287,913** |

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

1. **General information**
   1. **Group:**

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

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

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

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

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

As of 30 June 2020, the Group had 387 employees (30 June 2019: 385 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

**1. General information (continued)**

**1.2. Bank (continued):**

*Supervisory Board*

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

* Zdravko Marić, DSc, Deputy Prime Minister of the Republic of Croatia and Minister of Finance - ex officio President of the Supervisory Board,
* Tomislav Ćorić, DSc, Minister of the Economy and Sustainable Development – ex officio Vice President of the Supervisory Board,
* Nikolina Brnjac, DSc, Minister of Tourism and Sports,
* Darko Horvat, Minister of Physical Planning, Construction and State Assets,
* Nataša Tramišak, Minister of Regional Development and EU Funds,
* Marija Vučković, MSc, Minister of Agriculture,
* Luka Burilović, DSc, President of the Croatian Chamber of Economy – ex officio Member of the Supervisory Board.

Three members of the Supervisory Board from among the members of the Croatian Parliament are expected to be appointed during October 2020.

*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 30 June 2020, HBOR had 366 employees (30 June 2019: 365 employees).

*Audit Committee*

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

* Prof. DSc. Lajoš Žager, Professor, Department of Accounting, Faculty of Economics and Business of the University of Zagreb, the Chairman of the Audit Committee,
* Grozdana Perić, Chairman of the Finance and Central Budget Committee of the Croatian Parliament, the Vice Chairman of the Audit Committee,
* Aurora Volarević, Chief Audit Executive at Infobip, Member of the Audit Committee.

**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, of the COVID-19 pandemic in most parts of the world, have created significant immediate challenges and risks and have undoubtedly affected economic activity in the Republic of Croatia, including the HBOR Group.

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

* introduction of moratorium on clients’ loan obligations under existing placements,
* Rescheduling of existing loans to HBOR’s clients with introduction of a grace period in the loan principal repayment,
* Approval of new liquidity loans to economic entities for financing salaries, overhead expenses and other basic operating expenses, the so-called idle mode (excluding loan obligations to commercial banks and other financial institutions) in cooperation with commercial banks and directly. With these loans, HBOR provides support to economic entities through favourable loan terms and conditions, i.e. lower interest rates, which is made possible through the use of interest rate subsidies of the Ministry of Finance, the Ministry of Tourism and Sports and the Ministry of Agriculture,
* Approval of guarantees (insurance policies) to commercial banks of exporters and to HBOR under the Export Insurance Guarantee Fund with the aim of granting new loans for working capital – liquidity,
* Expanding the scope of the Export Insurance Guarantee Fund by including the tourism sector with the aim of enabling the issuance of guarantees (insurance policies) for loans to banks and to HBOR, for additional liquidity funds to exporters and tourism sector,
* Expanding the scope of the Export Insurance Guarantee Fund by further extending the circle of eligible beneficiaries of insurance policies from exports and tourism to economic entities that are indirect exporters or are suppliers of direct exporters.

**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)**

Until 30 June 2020, 792 requests for moratorium were entered in the business records of HBOR (number of loan references in the moratorium) in accordance with the initial moratorium on loan obligations maturing from 1 March 2020 until 30 June 2020, whereas after the reporting period, requests for a new moratorium are approved regarding the obligations maturing from 1 July 2020 until no later than:

a) **30 September 2020** – for all clients of HBOR,

b) **31 December 2020** – for all clients of HBOR that have a positive COVID score (with negative information included) according to FINA (Financial Agency),

c) **30 June 2021** – for all clients of HBOR active in the tourism industry (see note 29.2. Events after the reporting period date).

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

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

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

* 8. Impairment loss and provisions;
* 25.3 Credit risk;
* 25.3.3 Analysis of input for ECL model within the framework of impact of macroeconomic conditions on PD;
* 25.3.2.5 Significant increase in credit risk and
* 25.1 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.

1. **Basis of Preparation of the Financial Statements**
   1. **Statement of compliance**

The Condensed Interim Financial Statements of the Bank and HBOR Group for the period 1 January to 30 June 2020 have been prepared in accordance with the International Accounting Standard 34 Interim Financial Reporting.

The Condensed Interim Financial Statements for the period from 1 January to 30 June 2020 do not include all information and disclosures that are required in the annual financial statements and should be read in combination with the annual financial statements of the HBOR Group for the year ended 31 December 2019.

* 1. **Measurement**

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

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

* 1. **Functional and presentation currency**

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

1. **Use of judgements and estimates**

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

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

1. **Summary of significant accounting policies**

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

Numerous new standards and supplements to standards are in force for annual periods beginning on or after 1 January 2020 and earlier application is allowed; however, the Group has not adopted them earlier for the preparation of these financial statements. The Group considers that new standards and additions to the standards will not have a significant impact on consolidated and separate financial statements.

4.1.1. Other standards

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

* Amendment to IFRS 3 Business Combinations,
* Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform,
* Amendments to IAS 1 and IAS 8: Definition of Material,
* Amendments to References to Conceptual Framework in IFRS Standards.

1. **Interest income calculated using the effective interest method**

Interest income by borrowers:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Group** |  |  |  | **Bank** |
|  | **2020** | | **2019** | | **2020** | | **2019** | |
|  | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |  |  |  |
| Public sector | 26,764 | 50,438 | 24,165 | 47,933 | 26,486 | 49,861 | 23,833 | 47,272 |
| State-owned companies | 6,316 | 15,084 | 9,292 | 18,080 | 6,316 | 15,084 | 9,292 | 18,080 |
| Foreign companies | 7,943 | 18,595 | 10,627 | 21,284 | 7,943 | 18,595 | 10,627 | 21,284 |
| Domestic companies | 71,000 | 144,853 | 67,837 | 134,720 | 71,000 | 144,853 | 67,837 | 134,720 |
| Domestic financial institutions | 34,050 | 68,658 | 39,039 | 80,361 | 34,050 | 68,658 | 39,039 | 80,361 |
| Foreign financial institutions | 1 | 104 | 171 | 461 | 1 | 104 | 171 | 461 |
| Penalty interest | 1,427 | 5,659 | 2,785 | 9,211 | 1,427 | 5,659 | 2,785 | 9,211 |
| Other | 4,096 | 8,728 | 4,767 | 9,933 | 4,096 | 8,728 | 4,767 | 9,933 |
|  | **151,597** | **312,119** | **158,683** | **321,983** | **151,319** | **311,542** | **158,351** | **321,322** |

**5. Interest income calculated using the effective interest method (continued)**

Interest income by type of facility:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Group** |  |  |  | **Bank** |
|  | **2020** | | **2019** | | **2020** | | **2019** | |
|  | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| Interest on loans |  |  |  |  |  |  |  |  |
| - financial institutions | 34,050 | 68,660 | 39,051 | 80,367 | 34,050 | 68,660 | 39,051 | 80,367 |
| - other customers | 110,105 | 228,841 | 111,770 | 225,759 | 110,105 | 228,841 | 111,770 | 225,759 |
|  | 144,155 | 297,501 | 150,821 | 306,126 | 144,155 | 297,501 | 150,821 | 306,126 |
|  |  |  |  |  |  |  |  |  |
| Investments in securities | 7,439 | 14,512 | 7,681 | 15,375 | 7,161 | 13,935 | 7,349 | 14,714 |
| *- Bonds of the Republic of Croatia* | *7,288* | *14,251* | *7,525* | *14,954* | *7,014* | *13,683* | *7,204* | *14,315* |
| *- Corporate bonds* | *45* | *90* | *28* | *56* | *41* | *81* | *17* | *34* |
| *- Treasury bills of the Ministry of Finance* | *106* | *171* | *128* | *365* | *106* | *171* | *128* | *365* |
| Deposits | 3 | 106 | 181 | 482 | 3 | 106 | 181 | 482 |
|  | **151,597** | **312,119** | **158,683** | **321,983** | **151,319** | **311,542** | **158,351** | **321,322** |

The main difference between interest income and interest received or collected (see Statement of Cash Flows) mostly relates to the income in respect to interest subsidies inflows that are recorded upon payment. The discounted amount of the interest subsidies provided for the final user is presented as deferred interest income and is recognized in profit or loss on a time basis during the repayment of the loan. Interest income earned on this basis for the period 1 January to 30 June 2020 amounts to HRK 19.502 thousand (1 January to 30 June 2019: HRK 25,975 thousand).

1. **Interest expense**

Interest expense by type of payee:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Group** |  |  |  | **Bank** |
|  | **2020** | | **2019** | | **2020** | | **2019** | |
|  | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |  |  |  |
| Domestic financial institutions | 113 | 336 | 1,468 | 3,657 | 113 | 336 | 1,468 | 3,657 |
| Foreign financial institutions | 61,440 | 133,931 | 77,263 | 156,818 | 61,440 | 133,931 | 77,263 | 156,818 |
| Other | 40 | 85 | 15 | 33 | 31 | 66 | 14 | 30 |
|  | **61,593** | **134,352** | **78,746** | **160,508** | **61,584** | **134,333** | **78,745** | **160,505** |

**6. Interest expense (continued)**

Interest expense by type of facility:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Group** |  |  |  | **Bank** |
|  | **2020** | | **2019** | | **2020** | | **2019** | |
|  | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |  |  |  |
| Borrowings | 53,552 | 107,220 | 61,111 | 125,182 | 53,552 | 107,220 | 61,111 | 125,182 |
| Debt securities | 7,423 | 25,334 | 17,573 | 35,007 | 7,423 | 25,334 | 17,573 | 35,007 |
| Deposits | 578 | 1,713 | 47 | 286 | 578 | 1,713 | 47 | 286 |
| Leases – interest expenses on long term contracts | 40 | 85 | 15 | 33 | 31 | 66 | 14 | 30 |
|  | **61,593** | **134,352** | **78,746** | **160,508** | **61,584** | **134,333** | **78,745** | **160,505** |

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

1. **Operating expenses**

Operating expenses can be shown as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Group** |  |  |  | **Bank** |
|  | **2020** | | **2019** | | **2020** | | **2019** | |
|  | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |  |  |  |
| 7 a) Employee expenses | 23,774 | 47,217 | 23,555 | 46,936 | 22,649 | 45,105 | 22,601 | 45,093 |
|  |  |  |  |  |  |  |  |  |
| 7 b) Depreciation | 2,372 | 4,575 | 1,845 | 3,712 | 2,272 | 4,385 | 1,836 | 3,695 |
|  |  |  |  |  |  |  |  |  |
| 7 c) Other expenses | 10,070 | 22,539 | 20,282 | 32,627 | 9,423 | 20,966 | 18,669 | 29,605 |
|  |  |  |  |  |  |  |  |  |
| Of which: |  |  |  |  |  |  |  |  |
| *Administration expenses* | *1,470* | *4,496* | *11,089* | *13,924* | *1,396* | *4,348* | *10,975* | *13,715* |
| *Material and services* | *7,481* | *14,014* | *7,259* | *13,456* | *7,151* | *13,329* | *6,882* | *12,680* |
| *Other expenses* | *1,119* | *4,029* | *1,934* | *5,247* | *876* | *3,289* | *812* | *3,210* |
|  | **36,216** | **74,331** | **45,682** | **83,275** | **34,344** | **70,456** | **43,106** | **78,393** |

**7. Operating expenses (continued)**

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Group** |  |  |  | **Bank** |
|  | **2020** | | **2019** | | **2020** | | **2019** | |
|  | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |  |  |  |
| Change in the claims provision | 45 | 324 | (1,085) | 756 | - | - | - | - |
| Change in the claims provision, reinsurer’s share | (54) | (255) | 1,507 | 158 | - | - | - | - |
| **Expenses of insurance operations** | **(9)** | **69** | **422** | **914** | **-** | **-** | **-** | **-** |

Loss provisions as at 30 June 2020 consisted of reported and unreported losses in the approximate proportion 46:54. At the end of Q2 2020, total reserves exceeded those at the end of 2019 by 2.5%. The Bornhuetter-Ferguson method was used for gross provisions for unreported losses, and for reported losses, the amount was taken according to actual data on loss incurred. The reinsurance share was determined in accordance with the valid terms and conditions of the reinsurance contract.

1. **Impairment loss and provisions**

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

1. **Impairment loss and provisions on financial instruments in accordance with IFRS 9**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Group** |  |  |  | **Bank** |
|  | **2020** | | **2019** | | **2020** | | **2019** | |
|  | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| Impairment losses on cash on hand and due from financial institutions | 1,090 | 1,459 | (170) | (871) | 1,087 | 1,440 | (160) | (862) |
| Impairment losses on deposits with other banks | (149) | (512) | 635 | 433 | (149) | (512) | 635 | 433 |
| Impairment losses on loans to financial institutions | (3,892) | (5,552) | (32,372) | (40,696) | (3,892) | (5,552) | (32,372) | (40,696) |
| Impairment losses on loans to other customers and interest | 18,325 | 16,036 | 109,692 | 217,510 | 18,325 | 16,036 | 109,692 | 217,510 |
| Modification loss/(gain) – financial institutions | (837) | (1,115) | 710 | 7,127 | (837) | (1,115) | 710 | 7,127 |
| Modification (gain)/loss – other customers | (790) | 35,071 | (1,394) | 12,347 | (790) | 35,071 | (1,394) | 12,347 |
| POCI assets – fair value adjustment at initial recognition | 7,363 | 17,476 | 7,500 | 19,019 | 7,363 | 17,476 | 7,500 | 19,019 |
| Impairment of financial assets at fair value through other comprehensive income | 516 | 419 | (1,884) | (3,434) | 517 | 420 | (1,655) | (3,208) |
| Impairment losses on Debt instruments at amortised cost | - | - | (1) | (1) | - | - | - | - |
| Impairment losses on other assets | 615 | 550 | 2,458 | 2,468 | 629 | 590 | 2,463 | 2,514 |
| Provisions for commitments | 56,538 | 32,645 | (19,480) | (24,768) | 56,538 | 32,645 | (19,480) | (24,768) |
| Provision for guarantees | 548 | 733 | (68,032) | (155,365) | 548 | 733 | (68,032) | (155,365) |
| **Total** | **79,327** | **97,210** | **(2,338)** | **33,769** | **79,339** | **97,232** | **(2,093)** | **34,051** |

**8 Impairment loss and provisions (continued)**

1. **Other impairment losses and provisions**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Group** |  |  |  | **Bank** |
|  | **2020** | | **2019** | | **2020** | | **2019** | |
|  | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** | **Current period**  **April 1 –**  **June 30** | **Cumulatively**  **January 1 – June 30** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |  |  |  |
| Impairment losses on foreclosed assets | - | - | - | 95 | - | - | - | 95 |
| Provision for other liabilities | (3,599) | (3,843) | (3,429) | (3,616) | (3,564) | (3,807) | (3,409) | (3,596) |
| **Total** | **(3,599)** | **(3,843)** | **(3,429)** | **(3,521)** | **(3,564)** | **(3,807)** | **(3,409)** | **(3,501)** |
|  |  |  |  |  |  |  |  |  |
| **Total** | **75,728** | **93,367** | **(5,767)** | **30,248** | **75,775** | **93,425** | **(5,502)** | **30,550** |

Impairment loss and provisions in the reporting period 2020 amount to HRK 93,367 thousand for the Group and HRK 93,425 thousand for HBOR, which is significantly higher than the loss realised in the same reporting period 2019, when the loss for the Group stood at HRK 30,248 thousand and for HBOR at HRK 30,550 thousand.

The significant increase in provisions is in line with the expectations of the Management Board and reflects the increased estimates of credit losses, which relate in part to individual client assessments and in part to collective client assessments, and include the expected client default percentage and uncertainty about certain economic developments resulting from COVID-19 at the end of June 2020.

1. **Cash on hand and current accounts with banks**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Group** |  | **Bank** |
|  | **30 June**  **2020** | **31 December 2019** | **30 June**  **2020** | **31 December 2019** |
|  | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** |
| Account with the Croatian National Bank | 1,753,027 | 233,240 | 1,753,027 | 233,240 |
| Cash on hand | 5 | 5 | 5 | 5 |
| Foreign currency account - domestic banks | 865 | 708 | 861 | 703 |
| Foreign currency account - foreign banks | 724,768 | 649,833 | 723,997 | 648,018 |
| Domestic currency account - domestic banks | 14,104 | 1,104 | - | - |
|  | 2,492,769 | 884,890 | 2,477,890 | 881,966 |
| Loss allowances | (1,951) | (483) | (1,928) | (479) |
|  | **2,490,818** | **884,407** | **2,475,962** | **881,487** |

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **30 June 2020** |  |  |  | **Group** |  |  |  | **Bank** |
|  | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|  | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** |
| Gross amount | 2,492,764 | - | - | **2,492,764** | 2,477,885 | - | - | **2,477,885** |
| Loss allowances | (1,951) | - | - | **(1,951)** | (1,928) | - | - | **(1,928)** |
| **Balance as of 30 June 2020** | **2,490,813** | **-** | **-** | **2,490,813** | **2,475,957** | **-** | **-** | **2,475,957** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **31 December 2019** |  |  |  | **Group** |  |  |  | **Bank** |
|  | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|  | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** |
| Gross amount | 884,885 | - | - | **884,885** | 881,961 | - | - | **881,961** |
| Loss allowances | (483) | - | - | **(483)** | (479) | - | - | **(479)** |
| **Balance as of 31 December 2019** | **884,402** | **-** | **-** | **884,402** | **881,482** | **-** | **-** | **881,482** |

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

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Group** |  | **Bank** |
|  | **Jan 1 – Jun 30, 2020** | **Jan 1 - Dec 31, 2019** | **Jan 1 – Jun 30, 2020** | **Jan 1 - Dec 31, 201** |
|  | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** |
| Balance as of 1 January | 483 | 1,668 | 479 | 1,651 |
| Net increase/(decrease) of loss allowances on amounts due from banks | 1,459 | (1,190) | 1,440 | (1,177) |
| *Total recognised through Income Statement (Note 8)* | *1,459* | *(1,190)* | *1,440* | *(1,177)* |
| Net foreign exchange gain/loss on loss allowances | 9 | 5 | 9 | 5 |
| **Balance at the end of the reporting period** | **1,951** | **483** | **1,928** | **479** |

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

1. **Deposits with other banks**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Group** |  | **Bank** |
|  | **30 June**  **2020** | **31 December 2019** | **30 June**  **2020** | **31 December 2019** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |
| Deposits with foreign banks | 378 | 372,501 | 378 | 372,501 |
| Deposits with domestic banks | 132,279 | 182,343 | 132,279 | 182,343 |
| Accrued interest | - | (118) | - | (118) |
|  | **132,657** | **554,726** | **132,657** | **554,726** |
|  |  |  |  |  |
| Loss allowances | (763) | (1,256) | (763) | (1,256) |
|  | **131,894** | **553,470** | **131,894** | **553,470** |

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **30 June**  **2020** |  |  |  | **Group** |  |  |  | **Bank** |
|  | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|  | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** |
|  |  |  |  |  |  |  |  |  |
| Gross amount | 132,657 | - | - | **132,657** | 132,657 | - | - | **132,657** |
| Loss allowances | (763) | - | - | **(763)** | (763) | - | - | **(763)** |
| **Balance as of 30 June 2020** | **131,894** | **-** | **-** | **131,894** | **131,894** | **-** | **-** | **131,894** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **31 December 2019** |  |  |  | **Group** |  |  |  | **Bank** |
|  | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|  | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** |
|  |  |  |  |  |  |  |  |  |
| Gross amount | 554,726 | - | - | **554,726** | 554,726 | - | - | **554,726** |
| Loss allowances | (1,256) | - | **-** | **(1,256)** | (1,256) | - | **-** | **(1,256)** |
| **Balance as of 31 December 2019** | **553,470** | **-** | **-** | **553,470** | **553,470** | **-** | **-** | **553,470** |

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

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Group** |  | **Bank** |
|  | **Jan 1 – Jun 30, 2020** | **Jan 1 - Dec 31, 2019** | **Jan 1 –** **Jun 30, 2020** | **Jan 1 - Dec 31, 2019** |
|  | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** |
| Balance as of 1 January | 1,256 | 1,361 | 1,256 | 1,361 |
| Net (decrease) of loss allowances on deposits with other banks | (512) | (112) | (512) | (112) |
| *Total recognised through Income Statement (Note 8)* | *(512)* | *(112)* | *(512)* | *(112)* |
| Net foreign exchange gain/loss on loss allowances | 19 | 7 | 19 | 7 |
| **Balance at the end of the reporting period** | **763** | **1,256** | **763** | **1,256** |

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

1. **Loans to financial institutions**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Group and Bank** | | |
|  | **30 June**  **2020** | **31 December 2019** |
|  | **HRK ‘000** | **HRK ‘000** |
|  |  |  |
| Long-term loans under loan programmes | 9,045,250 | 9,395,321 |
| Short-term loans and reverse repo transactions | 139,264 | 141,075 |
| Accrued interest | 8,800 | 5,936 |
| Deferred recognition of loan origination fees | (32,153) | (35,928) |
|  | 9,161,161 | 9,506,404 |
|  |  |  |
| Loss allowances | (53,480) | (58,698) |
|  | **9,107,681** | **9,447,706** |

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **30 June 2020** |  |  | **Group and Bank** | |
|  | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|  | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** |
|  |  |  |  |  |
| Gross amount | 9,065,847 | 73,778 | 21,536 | **9,161,161** |
| Loss allowances | (33,353) | (9,266) | (10,861) | **(53,480)** |
| **Balance as of 30**  **June 2020** | **9,032,494** | **64,512** | **10,675** | **9,107,681** |

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

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

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

|  |  |  |
| --- | --- | --- |
|  |  | **Group and Bank** |
|  | **Jan 1 - Jun 30,**  **2020** | **Jan 1 - Dec 31,**  **2019** |
|  | **HRK 000** | **HRK 000** |
| Balance as of 1 January | 58,698 | 117,154 |
| Net decrease of loss allowances on loans to financial institutions | (5,552) | (58,486) |
| *Total recognised through Income Statement (Note 8)* | *(5,552)* | *(58,486)* |
| Net foreign exchange gain/loss on loss allowances | 355 | 29 |
| Loss allowances transferred to loans to other customers | (36) | (3) |
| Unwinding – changes due to the lapse of time | 15 | 4 |
| **Balance at the end of the reporting period** | **53,480** | **58,698** |

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

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

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

|  |  |  |
| --- | --- | --- |
|  | **Group and Bank** | |
|  | **30 June**  **2020** | **31 December 2019** |
|  | **HRK ‘000** | **HRK ‘000** |
|  |  |  |
| EU Projects | 77,215 | - |
| Financial Restructuring | 3,983 | - |
| Pre-Export Finance | 1,018 | - |
| Public Sector Investment | 123,488 | - |
| Private Sector Investment | 131,552 | - |
| Youth, Female, Start-up Entrepreneurship | 24,075 | - |
| Working Capital | 1,028 | - |
| Loan programme for reconstruction and development of the economy | 1,481,879 | 1,637,578 |
| Export financing | 2,128,444 | 2,279,986 |
| Loan programme for reconstruction and development of infrastructure in the Republic of Croatia | 1,352,250 | 1,350,974 |
| Loan programme for small and medium-sized enterprises | 3,715,087 | 4,121,003 |
| Loan programme for war-torn and demolished housing and business facilities | 5,231 | 5,780 |
| Other | 139,264 | 141,075 |
| Accrued interest | 8,800 | 5,936 |
| Deferred recognition of loan fees | (32,153) | (35,928) |
|  | 9,161,161 | 9,506,404 |
| Loss allowances | (53,480) | (58,698) |
|  | **9,107,681** | **9,447,706** |

Average interest rates for total loans to financial institutions are stated at 0.51% (1 Jaunary - 30 June 2019: 0.59%) 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 39,264 thousand (31 December 2019: HRK 41,075 thousand). The above placements are collateralized by securities in the amount of HRK 41,426 thousand (31 December 2019: HRK 43,115 thousand).

1. **Loans to other customers**

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

|  |  |  |
| --- | --- | --- |
|  | **Group and Bank** | |
|  | **30 June**  **2020** | **31 December 2019** |
|  | **HRK ‘000** | **HRK ‘000** |
|  |  |  |
| Domestic companies | 10,787,524 | 10,551,828 |
| State-owned companies | 1,039,269 | 1,253,879 |
| Public sector | 2,749,302 | 3,710,224 |
| Foreign companies | 982,454 | 794,802 |
| Non-profit institutions | 5,900 | 5,900 |
| Other | 548,994 | 557,577 |
| Accrued interest | 380,168 | 281,512 |
| Deferred recognition of loan origination fees | (89,703) | (91,014) |
|  | 16,403,908 | 17,064,708 |
| Loss allowances | (3,430,197) | (3,365,074) |
|  | **12,973,711** | **13,699,634** |

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **30 June 2020** |  |  |  | **Group and Bank** | |
|  | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
|  | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** |
|  |  |  |  |  |  |
| Gross amount | 9,541,721 | 1,697,693 | 3,879,885 | 1,284,609 | **16,403,908** |
| Loss allowances | (344,144) | (569,370) | (2,370,752) | (145,931) | **(3,430,197)** |
| **Balance as of 30**  **June 2020** | **9,197,577** | **1,128,323** | **1,509,133** | **1,138,678** | **12,973,711** |

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

1. **Loans to other customers**

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

|  |  |  |
| --- | --- | --- |
|  |  | **Group and Bank** |
|  | **Jan 1 - Jun 30,**  **2020** | **Jan 1 - Dec 31,**  **2019** |
|  | **HRK 000** | **HRK 000** |
| Balance as of 1 January | 3,365,074 | 3,380,296 |
| Net release of loss allowances on loans to other customers and interest | 16,036 | (33,136) |
| *Total recognised through Income Statement (Note 8)* | *16,036* | *(33,136)* |
| Net foreign exchange gain/loss on loss allowances | 22,708 | 9,126 |
| Write-offs | (114) | (26,751) |
| Write-off due to sale of recevibles | - | (52) |
| Loss allowances transferred from loans to financial institutions | 36 | 3 |
| Unwinding – changes due to the lapse of time | 21,246 | 33,618 |
| Acquisition of immovable property | (799) | (6,475) |
| Conversion of receivables into shares | - | (1,812) |
| Interest transferred from the off-balance sheet records and other | 6,010 | 10,257 |
| **Balance at the end of the reporting period** | **3,430,197** | **3,365,074** |

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

1. **Loans to other customers**

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

|  |  |  |
| --- | --- | --- |
|  | **Group and Bank** | |
|  | **30 June**  **2020** | **31 December 2019** |
|  |  |  |
|  | **HRK ‘000** | **HRK ‘000** |
|  |  |  |
| EU Projects | 50,219 | - |
| Financial Restructuring | 276,628 | - |
| Pre-Export Finance | 26,109 | - |
| Public Sector Investment | 360,682 | - |
| Private Sector Investment | 341,039 | - |
| Youth, Female, Start-up Entrepreneurship | 8,640 | - |
| Working Capital | 361,814 | - |
| Loan programme for reconstruction and development of the economy | 3,110,845 | 3,968,956 |
| Export financing | 5,380,775 | 5,169,252 |
| Loan programme for reconstruction and development of infrastructure in the Republic of Croatia | 4,348,137 | 4,347,002 |
| Loan programme for small and medium-sized enterprises | 1,572,416 | 1,616,868 |
| Working Capital – COVID measures | 2,660 | - |
| Other | 273,479 | 1,772,132 |
| Accrued interest | 380,168 | 281,512 |
| Deferred recognition of loan origination fees | (89,703) | (91,014) |
|  | 16,403,908 | 17,064,708 |
| Loss allowances | (3,430,197) | (3,365,074) |
|  | **12,973,711** | **13,699,634** |

Average interest rates on loans to other customers are stated at 1.68% (1 January - 30 June 2019: 1.65%).

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

1. **Financial assets at fair value through profit or loss**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Bank** | |
|  | **30 June**  **2020** | **31 December 2019** | **30 June**  **2020** | **31 December 2019** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| ***Loans at FVPL:*** |  |  |  |  |
| Mezzanine loans | 2,064 | 2,234 | 2,064 | 2,234 |
|  | **2,064** | **2,234** | **2,064** | **2,234** |
|  |  |  |  |  |
| ***Investments in investment funds:*** |  |  |  |  |
| Investments in investment funds at FVPL | 180,254 | 200,868 | 180,254 | 191,029 |
|  | **180,254** | **200,868** | **180,254** | **191,029** |
|  |  |  |  |  |
| ***Unlisted equity instruments:*** |  |  |  |  |
| Investments in corporate shares | 31 | 31 | 31 | 31 |
| Depository receipt - DR | 547 | 539 | 547 | 539 |
| Investments in financial institutions’ shares | 161 | 161 | 161 | 161 |
|  | **739** | **731** | **739** | **731** |
|  | **183,057** | **203,833** | **183,057** | **193,994** |

Shares of companies that are not listed relate to the shares of the company Vinka d.d. for the production of agricultural products acquired through company restructuring measures in replacement of a portion of placements. The percentage of HBOR’s share in the equity of the company Vinka d.d., Vinkovci representing a 0.9365%. The shares of the company Vinka d.d., Vinkovci (LPVC-R-B) are not listed and the fair value is estimated to be HRK 0 thousand (31 December 2019: HRK 0 thousand).

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

Non-listed equity securities in the amount of HRK 547 thousand relate to depository receipts (DR) of the Fortenova Group STAK Stichting taken over through the Settlement under the Extraordinary Administration Proceedings against the company Agrokor d.d. et al.

The shares of financial institutions that are not listed relate to the shares of Tržište novca i kratkoročnih vrijednosnica d.d. (Money Market and Short-Term Securities) and are stated in the amount of HRK 161 thousand (31 December 2019: HRK 161 thousand).

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Bank** | |
|  | **30 June**  **2020** | **31 December 2019** | **30 June**  **2020** | **31 December 2019** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| ***Debt instruments:*** |  |  |  |  |
| **Listed debt instruments:** |  |  |  |  |
| Bonds of the Republic of Croatia | 1,193,436 | 1,122,448 | 1,156,080 | 1,083,749 |
| Corporate bonds | 977 | 1,000 | - | - |
| Treasury bills of the Ministry of Finance | 1,092,602 | 414,788 | 1,092,602 | 414,788 |
| Accrued interest | 10,442 | 11,232 | 10,031 | 10,762 |
|  | **2,297,457** | **1,549,468** | **2,258,713** | **1,509,299** |
| **Unlisted debt instruments:** |  |  |  |  |
| Corporate bonds | 586 | 573 | 586 | 573 |
| Convertible bonds - CB | 2,281 | 2,155 | 2,281 | 2,155 |
| Accrued interest | 364 | 369 | 364 | 369 |
|  | **3,231** | **3,097** | **3,231** | **3,097** |
| ***Equity instruments:*** |  |  |  |  |
| **Unlisted equity instruments:** |  |  |  |  |
| Investments in shares of foreign legal entities - SWIFT | 41 | 40 | 41 | 40 |
| Shares of foreign financial institutions – EIF | 26,742 | 26,205 | 26,742 | 26,205 |
|  | 26,783 | **26,245** | 26,783 | **26,245** |
|  | **2,327,471** | **1,578,810** | **2,288,727** | **1,538,641** |

Non-listed convertible bonds (CB) of the Fortenova Group TopCo B.V. in the amount of HRK 2,281 thousand (31 December 2019: HRK 2,155 thousand) have been taken over through the Settlement under the Extraordinary Administration Proceedings against the company Agrokor d.d. et al.

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **30 June 2020** |  |  |  | **Group** |  |  |  | **Bank** |
|  | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|  | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** |
|  |  |  |  |  |  |  |  |  |
| Gross amount | 2,298,384 | - | 2,304 | 2,300,688 | 2,259,640 | - | 2,304 | **2,261,944** |
| **Balance as of 30 June 2020** | **2,298,384** | **-** | **2,304** | **2,300,688** | **2,259,640** | **-** | **2,304** | **2,261,944** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **31 December 2019** |  |  |  | **Group** |  |  |  | **Bank** |
|  | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|  | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** |
|  |  |  |  |  |  |  |  |  |
| Gross amount | 1,549,468 | 875 | 2,222 | 1,552,565 | 1,509,299 | 875 | 2,222 | 1,512,396 |
| **Balance as of 31 December 2019** | **1,549,468** | **875** | **2,222** | **1,552,565** | **1,509,299** | **875** | **2,222** | **1,512,396** |

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

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Bank** | |
|  | **Jan 1 – Jun 30, 2020** | **Jan 1 – Dec 31, 2019** | **Jan 1 – Jun 30, 2020** | **Jan 1 – Dec 31, 2019** |
|  | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** |
| Balance as of 1 January | 3,355 | 6,746 | 3,283 | 6,459 |
| Net (release) of loss allowances | 419 | (3,401) | 420 | (3,186) |
| *Total recognised through Income Statement (Note 8)* | *419* | *(3,401)* | *420* | *(3,186)* |
| Net foreign exchange gain/loss on loss allowances | 41 | 10 | 41 | 10 |
| **Balance at the end of the reporting period** | **3,815** | **3,355** | **3,744** | **3,283** |

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

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

The following text contains investment breakdown:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Group** | | **Bank** | |
|  | **Date of issue** | **Date of maturity** | **Interest rate**  **(%)** | **30 June 2020** | **31 December 2019** | **30 June 2020** | **31 December 2019** |
|  |  |  |  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Listed debt instruments:** | |  |  |  |  |  |  |
| Debt instruments: | |  |  |  |  |  |  |
| *Bonds of the Republic of Croatia with a currency clause:* | | |  |  |  |  |  |
| RHMF-O-227E | 22.7.2011. | 22.7.2022. | 6.5 | 161,123 | 164,005 | 161,123 | 164,005 |
| RHMF-O-247E | 10.7.2013. | 10.7.2024. | 5.75 | 17,931 | 18,264 | 12,694 | 12,894 |
| RHMF-O-203E | 5.3.2010. | 5.3.2020. | 6.5 | - | 753 | - | - |
| RHMF-O222E | 5.2.2019. | 5.2.2022. | 0.5 | 15,089 | 14,963 | 15,089 | 14,963 |
| *Bonds of the Republic of Croatia in foreign currency:* | | |  |  |  |  |  |
| XS1117298916 | 11.3.2015. | 11.3.2025. | 3.0 | 124,630 | 58,954 | 124,630 | 58,954 |
| XS1843434876 | 19.6.2019. | 19.10.2029. | 1.125 | 14,963 | 15,376 | 14,963 | 15,376 |
| XS1028953989 | 17.06.2020. | 17.06.2031. | 1.500 | 57,051 | - | 57,051 | - |
| *Bonds of the Republic of Croatia in HRK:* | |  |  |  |  |  |  |
| RHMF-O-203A | 5.3.2010. | 5.3.2020. | 6.75 | - | 32,965 | - | 30,331 |
| RHMF-O-257A | 9.7.2015. | 9.7.2025. | 4.5 | 9,904 | 10,229 | - | - |
| RHMF-O-26CA | 14.12.2015. | 14.12.2026. | 4.25 | 45,852 | 47,643 | 36,182 | 37,700 |
| RHMF-O-217A | 8.7.2016. | 8.7.2021. | 2.75 | 222,741 | 226,436 | 220,691 | 224,355 |
| RHMF-O-222A | 7.2.2017. | 7.2.2022. | 2.25 | 71,584 | 72,918 | 71,584 | 72,918 |
| RHMF-O-282A | 7.2.2017. | 7.2.2028. | 2.875 | 13,553 | 14,026 | 11,389 | 11,800 |
| RHMF-O-023BA | 27.11.2017. | 27.11.2023. | 1.75 | 430,684 | 440,453 | 430,684 | 440,453 |
| RHMF-O-297A | 9.7.2018. | 9.7.2029. | 2.38 | 3,351 | 3,483 | - | - |
| RHMF-O-34BA | 27.11.2019. | 27.11.2034. | 1.00 | 1,951 | 1,980 | - |  |
| RHMF-O-403E | 3.3.2020. | 3.3.2040. | 1.25 | 3,029 | - | - | - |
| *Corporate bonds in HRK:* | | |  |  |  |  |  |
| JDGL-O-24XA | 18.12.2019. | 18.12.2024. | 1.75 | 977 | 1,000 | - | - |
| Treasury bills in HRK up to 364 days | |  | 0.037-0.306 | 1,077,495 | 399,912 | 1,077,495 | 399,912 |
| Treasury bills with currency clause up to 295 days | |  | 0.441 | 15,107 | 14,876 | 15,107 | 14,876 |
| Accrued interest |  |  |  | 10,442 | 11,232 | 10,031 | 10,762 |
|  |  |  |  | **2,297,457** | **1,549,468** | **2,258,713** | **1,509,299** |
|  |  |  |  |  |  |  |  |
| Unlisted debt instruments: | |  |  |  |  |  |  |
| *Corporate bonds with a currency clause:* | | |  |  |  |  |  |
| LNGU-O-31AE | 24.7.2015. | 15.10.2031. | 4.5 | 586 | 573 | 586 | 573 |
| *Bonds of foreign corporate in foreign currency* | | |  |  |  |  |  |
| Fortenova Group TopCo B.V. | 1.4.2019. | 1.4.2029. | 2.5 | 2,281 | 2,155 | 2,281 | 2,155 |
| Accrued interest |  |  |  | 364 | 369 | 364 | 369 |
|  |  |  |  | **3,231** | **3,097** | **3,231** | **3,097** |
|  |  |  |  |  |  |  |  |
| **Equity instruments:** |  |  |  |  |  |  |  |
| *Unlisted equity instruments:* | |  |  |  |  |  |  |
| Investments in shares of foreign legal entities - SWIFT | | |  | 41 | 40 | 41 | 40 |
| Investments in shares of foreign financial institutions - EIF | | |  | 26,742 | 26,205 | 26,742 | 26,205 |
|  |  |  |  | **26,783** | **26,245** | **26,783** | **26,245** |
| **Total** |  |  |  | **2,327,471** | **1,578,810** | **2,288,727** | **1,538,641** |

1. **Debt instruments at amortized cost**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Bank** | |
|  | **30 June**  **2020** | **31 December 2019** | **30 June**  **2020** | **31 December 2019** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| ***Debt instruments:*** |  |  |  |  |
| **Listed debt instruments:** |  |  |  |  |
| Bonds of the Republic of Croatia | - | 448 | - | - |
| Accrued interest | - | 9 | - | - |
|  | - | 457 | - | - |
| Loss allowances | - | - | - | - |
|  | **-** | **457** | **-** | **-** |

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **30 June 2020** |  |  |  | **Group** |  |  |  | **Bank** |
|  | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|  | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** |
|  |  |  |  |  |  |  |  |  |
| Gross amount | - | - | - | **-** | - | - | - | **-** |
| Loss allowances | - | - | - | **-** | - | - | - | **-** |
| **Balance as of 30 June 2020** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **31 December 2019** |  |  |  | **Group** |  |  |  | **Bank** |
|  | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|  | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** |
|  |  |  |  |  |  |  |  |  |
| Gross amount | 457 | - | - | **457** | - | - | - | **-** |
| Loss allowances | - | - | - | **-** | - | - | - | **-** |
| **Balance as of 31 December 2019** | **457** | **-** | **-** | **457** | **-** | **-** | **-** | **-** |

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Bank** | |
|  | **Jan 1 - Jun 30, 2020** | **Jan 1 - Dec 31, 2019** | **Jan 1 - Jun 30, 2020** | **Jan 1 - Dec 31, 2019** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| Balance as of 1 January | - | 2 | - | - |
| Net release of loss allowances on debt instruments at amortised cost | - | (2) | - | - |
| **Balance at the end of the reporting period** | **-** | **-** | **-** | **-** |

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-203E) issued with foreign currency clause on 5 March 2010 are repayable over 10 years with an interest rate of 6.5%. The bonds were redeemed upon maturity on 5 March 2020 (31 December 2019: HRK 448 thousand).

1. **Foreclosed assets**

|  |  |  |
| --- | --- | --- |
|  | **Group and Bank** | |
|  | **30 June 2020** | **31 December 2019** |
|  | **HRK ‘000** | **HRK ‘000** |
|  |  |  |
| Foreclosed assets | 23,606 | 24,198 |
|  | **23,606** | **24,198** |

In the reporting period 2020, acquisition of property took place with present value in the amount of HRK 215 thousand, acquisition value of HRK 586 thousand and provisions of HRK 371 thousand, and relates to land plot in the amount of HRK 64 thousand, acquisition value of HRK 212 thousand and provisions of HRK 148 thousand and buildings in the amount of HRK 151 thousand, acquisition value of HRK 374 thousand and provisions of HRK 223 thousand (in 2019, acquisition of property took place with present value in the amount of HRK 3,084 thousand, acquisition value of HRK 14,215 thousand and provisions of HRK 11,131 thousand, and relates to buildings).

Fair value of acquired property at the end of second quarter 2020 amounted to HRK 586 thousand.

In the reporting period, sale of foreclosed assets took place with present value in the amount of HRK 155 thousand, acquisition value of HRK 283 thousand and provisions of HRK 128 thousand and relates to apartments (in 2019, sale of foreclosed assets took place with present value in the amount of HRK 4,244 thousand, acquisition value and provisions of HRK 9,361 thousand and provisions of HRK 5,117 thousand and relates to land plot in the amount of HRK 2,297 thousand, buildings in the amount of HRK 1,916 thousand and apartments of HRK 31 thousand).

In the reporting period 2020, foreclosed assets was transferred to lease on the item Investments in property in the amount of HRK 1,739 thousand (2019: HRK 1,124 thousand), which is presented under Other assets due to immaterial significance. In the reporting period, this property was depreciated in the amount of HRK 37 thousand (2019: HRK 83 thousand).

The fair value of foreclosed assets at the beginning of the reporting period stood at HRK 46,275 thousand and the end of the reporting period at HRK 41,358 thousand.

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

1. **Other assets**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Group** | | | **Bank** | |
|  | **30 June**  **2020** | **31 December 2019** | **30 June**  **2020** | | **31 December 2019** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | | **HRK ‘000** |
|  |  |  |  | |  |
| Fees receivable | 27,892 | 27,855 | 27,892 | | 27,855 |
| Other receivables | 13,125 | 13,922 | 13,125 | | 13,922 |
| Prepaid expenses | 2,381 | 2,537 | 2,228 | | 2,397 |
| Accrued income | 17,103 | 9,257 | 17,103 | | 9,257 |
| Premium receivables | 4,444 | 4,308 | - | | - |
| Receivables for reinsurance commissions | 651 | 1,061 | - | | - |
| Receivables for risk assessment fees | 236 | 299 | - | | - |
| Deferred tax liabilities | 324 | - | - | | - |
| Leased assets | 3,922 | 5,061 | 3,841 | | 4,854 |
| Other assets | 2,680 | 1,085 | 2,622 | | 1,073 |
|  | 72,758 | 65,385 | 66,811 | | 59,358 |
| Loss allowances | (36,164) | (35,570) | (36,039) | | (35,436) |
|  | **36,594** | **29,815** | **30,772** | | **23,922** |

Lease assets are recognized in accordance with the application of the IFRS 16 and depreciation during the year stood at HRK 1,065 thousand for the Group and HRK 1,013 thousand for the Bank.

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

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **30 June**  **2020** |  |  |  |  | **Group** |  |  |  |  | **Bank** |
|  | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
|  | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** |
|  |  |  |  |  |  |  |  |  |  |  |
| Gross amount | 8,491 | 36 | 37,774 | 47 | **46,348** | 3,160 | 36 | 37,774 | 47 | **41,017** |
| Loss allowances | (151) | (5) | (36,000) | (8) | **(36,164)** | (26) | (5) | (36,000) | (8) | **(36,039)** |
| **Balance as 30 June 2020** | **8,340** | **31** | **1,774** | **39** | **10,184** | **3,134** | **31** | **1,774** | **39** | **4,978** |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **31 December 2019** |  |  |  |  | **Group** |  |  |  |  | **Bank** |
|  | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
|  | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** |
|  |  |  |  |  |  |  |  |  |  |  |
| Gross amount | 10,290 | 73 | 37,038 | 44 | **47,445** | 4,622 | 73 | 37,038 | 44 | **41,777** |
| Loss allowances | (164) | (18) | (35,382) | (6) | **(35,570)** | (30) | (18) | (35,382) | (6) | **(35,436)** |
| **Balance as of 31 December 2019** | **10,126** | **55** | **1,656** | **38** | **11,875** | **4,592** | **55** | **1,656** | **38** | **6,341** |

**17. Other assets (continued)**

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Bank** | |
|  | **30 June**  **2020** | **31 December 2019** | **30 June**  **2020** | **31 December 2019** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |
| Fees receivable | 27,892 | 27,855 | 27,892 | 27,855 |
| Other receivables | 13,125 | 13,922 | 13,125 | 13,922 |
| Premium receivables | 4,444 | 4,308 | - | - |
| Receivables for reinsurance commissions | 651 | 1,061 | - | - |
| Receivables for risk assessment fees | 236 | 299 | - | - |
|  | 46,348 | 47,445 | 41,017 | 41,777 |
| Loss allowance | (36,164) | (35,570) | (36,039) | (35,436) |
| **Subtotal – credit risk** | **10,184** | **11,875** | **4,978** | **6,341** |

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Group** |  | **Bank** |
|  | **Jan 1 - Jun 30, 2020** | **Jan 1 - Dec 31, 2019** | **Jan 1 - Jun 30, 2020** | **Jan 1 - Dec 31, 2019** |
|  | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** |
| Balance as of 1 January | 35,570 | 34,118 | 35,436 | 33,883 |
| Net (decrease)/increase of loss allowances on other assets | 550 | 1,561 | 590 | 1,584 |
| *Total recognised through Income statement (Note 8)* | *550* | *1,561* | *590* | *1,584* |
| Write-offs | - | (114) | - | (38) |
| Acquisition of immovable property | (6) | - | (6) | - |
| Net foreign exchange gain/loss on loss allowances | 19 | 7 | 19 | 7 |
| Other adjustments | 31 | (2) | - | - |
| **Balance at the end of the reporting period** | **36,164** | **35,570** | **36,039** | **35,436** |

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

1. **Deposits from customers**

|  |  |  |
| --- | --- | --- |
|  | **Group and Bank** | |
|  | **30 June**  **2020** | **31 December 2019** |
|  | **HRK ‘000** | **HRK ‘000** |
|  |  |  |
| Bank deposits | 959 | 1,320 |
| Foreign currency regular accounts of companies | 6 | 6 |
| Foreign currency account of the Ministry of Finance of the Republic of Croatia | 15,361 | 12,874 |
| Foreign currency special purpose accounts of the companies | 19,666 | 22,189 |
| Foreign currency special accounts of foreign financial institutions | 6,341 | 6,244 |
| State institutions’ deposits | 283,566 | 121,958 |
| Other deposits | 44,651 | 12,178 |
|  | **370,550** | **176,769** |

The foreign currency account of the Ministry of Finance of the Republic of Croatia relates to the Export Insurance Guarantee Fund comprising of reinsurance premiums paid for export insurance operations of HRK 9,324 thousand (31 December 2019: HRK 6,889 thousand), grant funds provided by the GEF aimed at the Programme of issuing bank guarantees for energy efficiency projects within the Energy Efficiency Project of HRK 6,037 thousand (31 December 2019: HRK 5,985 thousand), all managed by HBOR for and on behalf of the Republic of Croatia.

State institutions’ demand deposits relate to the Bank's operations carried out for and on behalf of the Ministry of Finance, the Ministry of the Economy and Sustainable Development, the Ministry of the Sea, Transport and Infrastructure, the Ministry of Agriculture, the Ministry of Regional Development and EU Funds, the company Vodovod i kanalizacija d.o.o., Split and the Croatian Agency for SMEs, Innovations and Investments (“HAMAG-BICRO”).

Foreign currency special purpose accounts of the companies relate to the inflow of funds and disposition of the advance payment funds paid to the company’s account in relation to the issued guarantees of HBOR for the repayment of advance for export transactions. The funds of the advance are used exclusively for the specified purpose of implementation of an export contract, with the consent of HBOR.

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

HBOR does not pay interest on the above deposits.

1. **Borrowings**

|  |  |  |
| --- | --- | --- |
|  | **Group and Bank** | |
|  | **30 June 2020** | **31 December 2019** |
|  | **HRK ‘000** | **HRK ‘000** |
| Balance as of 1 January | 14,385,635 | 14,863,426 |
| New borrowings | 3,042,715 | 3,036,226 |
| Repayments | (1,503,478) | (3,581,195) |
| Net foreign exchange gain/loss | 205,761 | 67,178 |
|  | 16,130,633 | 14,385,635 |
| Accrued interest | 44,996 | 46,498 |
| Deferred fees | (28,048) | (31,680) |
|  | **16,147,581** | **14,400,453** |

The bank is subject to financial clauses in some Contracts. On 30 June 2020 the Bank was in compliance with all required financial clauses from the Contract.

1. **Debt securities issued**

The book value of bonds includes interest.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Group and Bank** | **Effective interest rate** | **Fair value**  **30 June**  **2020** | **Net book value**  **30 June**  **2020** | **Fair value**  **31 December**  **2019** | **Net book value**  **31 December**  **2019** |
|  |  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |
| Bonds EUR 150 million | 6.37 | - | - | 1,141,506 | 1,114,976 |
| Accrued interest |  | - | - | - | 43,374 |
| Deferred fees |  | - | - | - | (59) |
|  |  | **-** | **-** | **1,141,506** | **1,158,291** |

Bonds were issued on the Luxembourg Stock Exchange and are listed. The fair value of bonds issued by HBOR is presented by using level 2 inputs corroborated by the market and observable at Bloomberg service on the basis of the mid-rate of Bloomberg Generic prices (BGN).

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

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Bank** | |
|  | **30 June**  **2020** | **31 December 2019** | **30 June**  **2020** | **31 December 2019** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |
| Provisions for guarantees and commitments | 91,923 | 57,716 | 91,923 | 57,716 |
| Provisions for other liabilities | 59,221 | 63,064 | 59,108 | 62,915 |
|  | **151,144** | **120,780** | **151,031** | **120,631** |

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Group** |  | **Bank** |
|  | **Jan 1 – Jun 30, 2020** | **Jan 1 - Dec 31, 2019** | **Jan 1 – Jun 30, 2020** | **Jan 1 - Dec 31, 2019** |
|  |  | **HRK ‘000** |  | **HRK ‘000** |
| Balance as of 1 January | 57,716 | 261,283 | 57,716 | 261,283 |
| Net increase/(release) of loss allowances on guarantees | 733 | (156,368) | 733 | (156,368) |
| *Total recognised through Income Statement (Note 8)* | *733* | *(156,368)* | *733* | *(156,368)* |
| Net increase/(release) of loss allowances on commitments | 32,645 | (47,722) | 32,645 | (47,722) |
| Total recognised through Income Statement (*Note 8)* | *32,645* | *(47,722)* | *32,645* | *(47,722)* |
| Net foreign exchange on loss allowances | 829 | 523 | 829 | 523 |
| **Balance at the end of the reporting period - Provisions for guarantees and commitments** | **91,923** | **57,716** | **91,923** | **57,716** |
| Balance as of 1 January | 63,064 | 60,208 | 62,915 | 60,078 |
| Net (release)/increase of loss allowances on other liabilities | (3,843) | 2,912 | (3,807) | 2,893 |
| *Total recognised through Income Statement (Note 8)* | *(3,843)* | *2,912* | *(3,807)* | *2,893* |
| Unrealized actuarial gains/(losses) | - | (56) | - | (56) |
| **Balance at the end of the reporting period - Provisions for other liabilities** | **59,221** | **63,064** | **59,108** | **62,915** |

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

Out of the total provisions for guarantees and commitments, the amount of HRK 8,384 thousand relates to financial institutions (31 December 2019: HRK 5,413 thousand), HRK 83,499 thousand relates to domestic companies (31 December 2019: HRK 52,262 thousand), HRK 21 thousand relates to the public sector (31 December 2019: HRK 20 thousand), HRK 19 thousand relates to other (31 December 2019: HRK 21 thousand).

1. **Other liabilities**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | Group |  | Bank |
|  | 30 June 2020 | 31 December  2019 | 30 June 2020 | 31 December  2019 |
|  | HRK ‘000 | HRK ‘000 | HRK ‘000 | HRK ‘000 |
|  |  |  |  |  |
| Deferred recognition of interest income | 138,612 | 162,937 | 138,612 | 162,937 |
| Liabilities in respect of subsidized interest | 186,570 | 132,912 | 186,570 | 132,912 |
| Accrued salaries | 7,431 | 7,480 | 7,213 | 7,285 |
| Liabilities to suppliers | 989 | 4,977 | 924 | 4,879 |
| Liabilities for prepaid receivables | 2,783 | 4,335 | 2,783 | 4,335 |
| Deferrable premium | 3,410 | 3,560 | - | - |
| Provisions for claims | 5,476 | 5,449 | - | - |
| Provisions for return premiums | 1,032 | 991 | - | - |
| Liabilities to re-insurers | 2,766 | 3,149 | - | - |
| Deferred tax liabilities | 1,064 | 694 | - | - |
| Corporate income tax-current liability | - | 29 | - | - |
| Lease liabilities | 3,299 | 5,944 | 3,881 | 4,926 |
| Other liabilities | 4,756 | 7,280 | 1,974 | 5,973 |
|  | **358,188** | **339,737** | **341,957** | **323,247** |

Liabilities in respect of subsidized interest represent advances taken in respect of interest subsidies on loans, which are provided for final customers at a lower interest rate in accordance with the following programmes implemented by HBOR for and on behalf of the Republic of Croatia. These liabilities include:

* HRK 167,630 thousand in respect of the Programme of Preferential Financing through HBOR’s Loan Programmes (31 December 2019: HRK 132,912 thousand)
* HRK 8,935 thousand in respect of the Programme Working Capital COVID-19 Measure for SMEs in tourism industry for micro, small and medium-sized entrepreneurs, Ministry of Tourism and Sports (31 December 2019: HRK 0 thousand),
* HRK 5 thousand in respect of the Programme Female Entrepreneurship – interest rate subsidy, Ministry of the Economy and Sustainable Development (31 December 2019: HRK 0 thousand),
* HRK 10,000 thousand in respect of the Programme Working Capital COVID-19 Measure for entrepreneurs in wood processing and furniture production industry, Ministry of Agriculture (31 December 2019: HRK 0 thousand).

Deferred recognition of interest income of HRK 138,612 thousand (31 December 2019: HRK 162,937 thousand) consists of state subsidies for interest in respect of loans which are provided and drawn down by final borrowers at lower interest rates but are not yet in repayment stage, amounting to HRK 7,948 thousand (31 December 2019: HRK 13,158 thousand), and in respect of those already in repayment stage amounting to HRK 130,664 thousand (31 December 2019: HRK 149,779 thousand).

1. **Guarantees and commitments**

In its regular activities, the Group contracts various commitments and contingent liabilities. The purpose of these instruments is to ensure that the funds are available to a customer when required.

These obligations contain credit risk and are therefore part of the overall risk of the Group although they are not recognized in the Statement of financial position.

|  |  |  |
| --- | --- | --- |
| **Group and Bank** |  | |
|  | **30 June 2020** | **31 December 2019** |
|  | **HRK ‘000** | **HRK ‘000** |
| Guarantees issued in HRK | 97,290 | 62,102 |
| Guarantees issued in foreign currency | 222,370 | 210,972 |
| Undrawn loans | 5,731,626 | 3,995,159 |
| Open letters of credit | 1,214 | 11,693 |
| EIF – subscribed, not called up capital | 48,376 | 47,632 |
| EIF CROGIP Contracted Liability | 263,916 | 259,858 |
| EIF FRC2 Contracted Liability | 11,206 | 12,362 |
| Other irrevocable contingent liabilities | 93 | 93 |
|  | 6,376,091 | 4,599,871 |
| Provisions for guarantees and commitments | (91,923) | (57,716) |
|  | **6,284,168** | **4,542,155** |

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:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **30 June 2020** |  | **Group and Bank** | | | | |
|  | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Without stage** | **Total** |
|  | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** | **HRK 000** |
|  |  |  |  |  |  |  |
| Gross amount | 5,390,836 | 192,700 | 240,658 | 227,185 | 1,214 | **6,052,593** |
| Loss allowances | (12,723) | (11,083) | (63,573) | (4,544) | - | **(91,923)** |
| **Balance as of**  **30 June 2020** | **5,378,113** | **181,617** | **177,085** | **222,641** | **1,214** | **5,960,670** |

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

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

1. **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 48%, collateralized by the guarantees, deposits and bank guarantees.

*Commitments upon undrawn loans*

The Bank has an obligation to disburse funds for loans and revolving loans upon committed undrawn loans. The expiry date of disbursement or other termination clause is determined by the contract. Disbursements are exercised in several withdrawals, depending on the purpose of the loan, phase of the project or documentation needed for disbursement. Since commitments may expire without being drawn upon, the total contractual amounts do not necessarily represent future cash outflows.

Committed undrawn loans include less potential credit risk than loans, since most commitments depend upon meeting specific terms and conditions by the customers in order to use the funds. The Bank monitors the terms to maturity of loan commitments.

*Other irrevocable contingent liabilities*

Other irrevocable contingent liabilities relate to HBOR’s obligation based on the Agreement concluded on 24 January 2014 with HBOR – Export Credit Insurance performing transactions for and on behalf of the Republic of Croatia. Pursuant to this Agreement, HBOR shall, in case of disposal of the real estate taken over and the recovery from debtors in a pre-bankruptcy settlement, provided that certain conditions have been fulfilled, pay the recovered funds to the Guarantee fund of the Export Credit Insurance.

The above contingent liability was reduced due to the completion of bankruptcy proceedings during which recourse payment was not collected.

1. **Related-party transactions**

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

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

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

Assets and liabilities as of 30 June 2020 and 31 December 2019, and income and expense for the period 1 January to 30 June 2020 and for the period 1 January to 30 June 2019 arising from transactions with related parties, including the Bank’s key management personnel, include the following

1. Related-party transactions

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Group** | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
|  | **30 June**  **2020** | **30 June**  **2020** | **31 December 2019** | **31 December 2019** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| Owner | 2,831,931 | 311,534 | 3,575,330 | 203,649 |
| Government funds, executive authorities and agencies | 2,340,142 | 170,081 | 1,351,888 | 62,057 |
| State-owned companies | 965,234 | 13 | 1,154,176 | 27 |
| Associates | 7 | - | 7 | - |
| Key management personnel | 266 | 1,410 | 3,802 | 1,667 |
| **Total** | **6,137,580** | **483,038** | **6,085,203** | **267,400** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Group** | **Income** | **Expense** | **Income** | **Expense** |
|  | **Jan 1 – Jun 30 2020** | **Jan 1 – Jun 30 2020** | **Jan 1 – Jun 30 2019** | **Jan 1 – Jun 30 2019** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| Owner | 27,712 | 238 | 31,709 | 518 |
| Government funds, executive authorities and agencies | 46,221 | 238 | 17,994 | 164 |
| State-owned companies | 18,540 | 2,842 | 39,181 | 5,281 |
| Associates | - | - | 1 | - |
| Key management personnel | 57 | 4,048 | 144 | 4,440 |
| **Total** | **92,530** | **7,366** | **89,029** | **10,403** |

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

a) Related-party transactions (continued)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Bank** | **Assets** | **Liabilities** | | **Assets** | | **Liabilities** |
|  | **30 June**  **2020** | | **30 June**  **2020** | **31 December 2019** | **31 December 2019** | |
|  | **HRK ‘000** | | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | |
| Owner | 2,831,930 | | 311,534 | 3,575,330 | 203,649 | |
| Government funds, executive authorities and agencies | 2,302,345 | | 170,058 | 1,312,254 | 62,004 | |
| State-owned companies | 965,229 | | 10 | 1,154,165 | 23 | |
| Subsidiary companies | 36,124 | | - | 36,124 | - | |
| Associates | 7 | | - | 7 | - | |
| Key management personnel | 266 | | 1,301 | 3,726 | 1,562 | |
| **Total** | **6,135,901** | | **482,903** | **6,081,606** | **267,238** | |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Bank** | **Income** | **Expense** | | **Income** | **Expense** | |
|  | **Jan 1 – Jun 30 2020** | | **Jan 1 – Jun 30 2020** | **Jan 1 – Jun 30 2019** | | **Jan 1 – Jun 30 2019** |
|  | **HRK ‘000** | | **HRK ‘000** | **HRK ‘000** | | **HRK ‘000** |
| Owner | 27,713 | | 238 | 31,709 | | 518 |
| Government funds, executive authorities and agencies | 45,641 | | 229 | 17,284 | | 8 |
| State-owned companies | 18,540 | | 2,817 | 39,181 | | 5,246 |
| Subsidiary companies | - | | - | - | | - |
| Associates | - | | - | 1 | | - |
| Key management personnel | 56 | | 3,315 | 141 | | 3,745 |
| **Total** | **91,950** | | **6,599** | **88,316** | | **9,517** |

Assets include loans to other customers, debt instruments at amortized cost, financial assets at fair value through other comprehensive income, other assets and off-balance sheet exposure relating to commitments.

Liabilities include liabilities for deposits, salaries, provisions on behalf of retirement and jubilee awards of key management and other liabilities.

Income includes interest income, fee income and reversal of impairment losses and provisions.

Expenses include expenses for key management salaries, impairment loss and provisions.

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

b) Collateral received

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | Group |  | Bank |
|  | 30 June  2020 | 31 December 2019 | 30 June  2020 | 31 December 2019 |
|  | **HRK '000** | **HRK '000** | **HRK '000** | **HRK '000** |
|  |  |  |  |  |
| The Republic of Croatia | 4,679,652 | 3,445,178 | 4,677,362 | 3,444,955 |
| State agencies | 378,015 | 399,285 | 378,015 | 399,285 |
| **Total** | **5,057,667** | **3,844,463** | **5,055,377** | **3,844,240** |

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

HBOR issues reinsurance policies for and on behalf of the Republic of Croatia, i.e. covers a proportional part (quota reinsurance) of political and commercial risks of export loans and receivables arising from export of goods and services. The reinsurer covers all non-marketable (non-market) risks underwritten by the Insurer or Hrvatsko kreditno osiguranje d.d. in the percentage ranging from 15% to 90% of an insured amount.

c) Salaries of key management personnel

Salaries include compensation paid for regular work, annual vacation, national holidays, paid leave, sick leave, benefits payable for past service and payments under contractual agreements. Salaries for the Group in the reporting period amounted to HRK 3,967 thousand (1 January to 30 June 2019: HRK 4,328 thousand), and for the Bank amounted to HRK 3,275 thousand (1 January to 30 June 2019: HRK 3,686 thousand).

Remuneration for the work of the members of the Supervisory Board for the Group amounted to HRK 81 thousand (1 January to 30 June 2019: HRK 112 thousand) and for the Bank amounted to HRK 40 thousand (1 January to 30 June 2019: HRK 59 thousand) and it relates to the members of supervisory boards at associates and subsidiaries who were appointed by HBOR.

1. **Risk management**

Based on the Act on the Croatian Bank for Reconstruction and Development, the Group is obliged to mitigate business risks directed by the principles of banking operations.

In the process of risk management, the Group identifies, estimates, measures, monitors, contains and controls the risks to which it is or might be exposed in the course of business and reports about them to the relevant authorities. By the mentioned procedures and appropriate internal documents, a comprehensive and complete risk management system is provided.

The most significant risks the Group is exposed in its day-to-day business are credit risk, liquidity risk, interest rate riskin the Bank’sbook, foreign exchange risk, operational risk and outsourcing risk. These risks are managed daily in accordance with the policies, ordinances, procedures, methodologies and limit systems, controls as well as decisions/conclusions of the Supervisory Board, the Management Board and the risk management committees.

The Group implements the sensitivity analyses and scenario analyses, provided that one or several risk factors are changed in regular or stressful circumstances, and the systems of pro-active risk management are continuously developed for the purpose of reducing possible future risks.

**25.1. Overview of the most important risks**

**Credit risk**

The Group controls credit risk through credit policies, ordinances and prescribed procedures that determine the internal control systems with an objective to act preventively.

The credit risk management system is the most important part of the HBOR business policy and is an important factor of its operation strategy.

**Liquidity risk, currency risk and interest rate risk in the Bank's book**

The Group ensures quality management of liquidity, currency and interest rate risks in the banking book through the Asset and Liability Management Committee. The management of these risks implies a reduction of interest rate risk, currency risk and liquidity risk to the lowest possible level. The majority of the Group’s organizational units are included, directly and indirectly, in the operations of the Asset and Liability Management Committee in order to ensure a high-quality, integrated and comprehensive system for the management of these risks.

**Liquidity risk**

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

In order to manage liquidity risk, the Group has established a system of limits and early warning signals, monitors and controls limit utilization, maintains the adequate level of liquidity reserve, continuously monitors current and planned liquidity, ensures HRK and foreign currency funds necessary for timely settlement of liabilities and for disbursements of approved loans and planned loan approvals. In terms of liquidity risk management, the Group monitors and strives to achieve compatibility of contracted and planned placements with the respective sources according to maturity. The Group does not hold deposits of citizens and is therefore not exposed to wide daily fluctuations in liquidity.

**25. Risk management (continued)**

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

**Liquidity risk (continued)**

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

Because of the need to timely react to the challenges posed by the coronavirus crisis, HBOR has provided sufficient liquidity funds to provide support to the economy in the form of funding sources for loans earmarked for this purpose. Operations have been ensured within the established liquidity reserve limit in the conditions of a significant, and in the following period expected, reduction of collection of granted loans as a consequence of moratoriums. Timely provision of funds in the conditions of non-collection of granted loans has been considered through the scenarios of liquidity projections made under the assumptions of different percentages of non-collection and different durations of moratoriums. These scenarios have been the basis for HBOR's decision-making on how to proceed with respect to moratoriums.

**Interest rate risk in the Bank’s book**

The basic principles for managing the Group’s interest rate risk are determined in the internal documents as well as in the decisions and conclusions made by the Management Board and the Asset and Liability Management Committee. For the purpose of measurement and monitoring of interest rate risk, the Group carries out interest rate gap analysis. Interest rate gap is calculated for certain periods according to the possibilities of interest rate changes and is used for presenting the sensitivity of the Group to the changes in interest rates under regular and stress conditions. Detailed breakdown of interest rates under regular operating conditions and under stress are prepared as well. Interest rates are structured per currency, type and value and projections of average weighted interest rates for Group’s funds and placements are made. Furthermore, in addition to harmonising interest rates on sources and placements, current market conditions and movements in forecasted market indicators are also monitored.

**Currency risk**

The basic principles for managing HBOR’s currency risk are determined in the internal acts as well as in the decisions and conclusions made by the Management Board and the Asset and Liability Management Committee. Methods for the measurement, i.e. assessment, monitoring and management of currency risk have been established, limits and early warning signals as well as proceedings both for cases of crisis indication and occurrence have been determined, and reports necessary for comprehensive perception of this risk have been defined.

The Group measures exposure to currency risk by monitoring open foreign currency position. In addition to the daily monitoring of the open foreign currency position and the projections of its developments, the Group calculates, for the measurement/assessment of currency risk, the risk value and regularly reports to the bodies in charge on maximum possible losses on significant currencies. Scenario analyses and sensitivity analyses in regular or stressful business conditions are also performed.

**Operational risk**

The Group has established a framework for operational risk management that is, to a considerable extent, aligned with regulations prescribed by the Croatian National Bank applicable to the Bank's business and good banking practices in the area of risk management that was introduced in 2012.

**25. Risk management (continued)**

**25.1. 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 utilization. The IT system security control function is in charge of monitoring the security of the IT system. Within this function, a system for the management of business continuity was established.

**Outsourcing risk**

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

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

**25.2. Strategy and risk management systems**

**The Supervisory Board** is responsible for monitoring the appropriateness and effectiveness of the risk management process in the Group. The Supervisory Board adopts HBOR’s Risk Management Strategy that lays out the main principles and standards of risk management and defines the tendency towards risk-taking.

**The Management Board of the Bank** is responsible for implementing the risk management strategy and establishing an effective and reliable risk management system. In order to accomplish its task, the Management Board delegated their risk management authority to four committees.

**Risk management committees**

* **Assets and Liabilities Management Committee (ALCO) –** manages liquidity risk, interest rate risk in the Bank’s book and currency risk within the framework of the Liquidity Risk Management Ordinance, the Currency Risk Management Ordinance and the Interest Rate Risk Management Procedures, the Assets and Liabilities Management Policies as well as other documents of the Bank that regulate this area,

**25. Risk management (continued)**

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

**Risk management committees (continued)**

* **Credit Risk Evaluation and Measurement Committee –** manages credit risk within the framework set through accepted Loan Policies, Credit Risk Management Ordinance, methodologies and other internal acts that cover issues related to credit risk,
* **HBOR Information System Management Committee –** manages the resources of the information system and adequately manages the risks that result from the use of information technology
* **Business Change Management Committee –** manages business changes (co-ordination of procedures for the suggestion, approval, monitoring and implementation of business changes) in order to reduce risks associated with the implementation of business changes.

**Organizational unit for Risk Management**

The Risk Management unit is a functionally and organizationally separate and independent organizational unit for the control of business risks, which is directly responsible to the Management Board. This organizational unit is responsible for defining, evaluating or measuring, monitoring and controlling the risks to which the Group is exposed in the course of its business.

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

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

**Risk measurement and reporting systems**

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

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

**25. Risk management (continued)**

**25.3. Credit risk**

The Group controls credit risk by way of credit policies and ordinances for the management of this risk that determine internal control systems aiming to act preventively.

The credit risk management system is a crucial part of the Group’s business policy and it is an important strategic factor of business conduct, and therefore this area is regulated by a separate act - Credit risk management ordinance, that are applied on all phases of the credit process (from the development of new bank products or from the credit application, monitoring of the client’s business operations until the final loan repayment).

Credit risk management ordinance is a comprehensive document that includes the methodologies intended for the assessment of operations of different client target groups.

In the case of direct financing, the Group uses the Credit risk evaluation methodology (for loans over HRK 1,500 thousand) or the Credit scoring methodology (for loans below HRK 1,500 thousand) to determine creditworthiness. The Credit scoring methodology is used to determine creditworthiness of clients that belong to the “small loan portfolio” and contains five scoring models: placements up to HRK 300 thousand to companies, crafts businesses and farmers, placements to start-ups up to HRK 300 thousand, placements from HRK 300 thousand to HRK 1,500 thousand to companies, placements to start-ups from HRK 300 thousand to HRK 1,500 thousand and placements from HRK 300 thousand to HRK 1,500 thousand for all other entrepreneurs.

The Credit Rating Assessment Methodology is used for the assessment of the risk of the clients that have been classified to the portfolio of individually significant clients, i.e. the loans exceeding HRK 1,500 thousand. The risk assessment can be contained in the assessment of client creditworthiness, assessment of investment project success and assessment of client creditworthiness containing analysis of future operations.

Pursuant to the HBOR Act, the Group on-lends part of its placements via commercial banks or leasing companies. The assessment of commercial banks is based on the Methodology for the Evaluation and Selection of Banks and the Methodology for the Evaluation and Selection of Foreign Banks, whereas the assessment of leasing companies is based on the Methodologies for the Evaluation and Selection of Leasing Companies. With an objective of facilitating the availability of HBOR’s funds, the Group channels part of its placements through the risk sharing model, under which commercial banks and HBOR participate in the financing of clients in accordance with in advance agreed proportions.

The Group, as a developmental financial institution, supports growth and development of the Croatian economy through investment. For this reason, the clients mainly approach the Group with applications for credit financing of investment projects. In order to minimize risk and objectively estimate economic sustainability of the project as well as a return on investment, the Group is constantly improving existing organizational and technical solutions, reports and internal acts and proposes new organization regulations and implementation instructions.

By continuous monitoring and evaluation of the clients’ businesses, the Group makes an effort to identify difficulties in their operation on a timely basis. For clients with difficulties, the Group tries to find appropriate ways to collect receivables by considering the possibilities of alternative repayment terms with a view to continue the production process and employment increase. Special emphasis is placed on identifying and monitoring reasons for bad debts, and procedures for prevention are built in operational procedures with a view to decreasing the share of high risk placements of the Group.

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

For the purpose of mitigating the negative consequences of the coronavirus pandemic, the Bank has, in order to preserve the level of economic activity and the liquidity of economic entities and, most importantly, in order to preserve jobs, enabled the rescheduling of obligations and has offered a moratorium from 1 April 2020 to 30 June 2020 to all clients for unpaid liabilities due from 1 March 2020 to 30 June 2020. As the negative impact of the coronavirus pandemic on the economy has prolonged, the Bank has introduced an additional possibility of a moratorium on the liabilities maturing from 1 July 2020 to 30 September 2020 for all clients, a moratorium on the liabilities maturing from 1 July 2020 to 31 December 2020 for the clients who can obtain evidence of coronavirus pandemic impact on operations (COVID score, etc.), and a moratorium on the liabilities maturing from 1 July 2020 to 30 June 2021 for all clients active in the tourism industry.

Besides the rescheduling of and the moratorium on liabilities, the Bank has, aiming to preserve the level of economic activity and liquidity, implemented new loans for the liquidity of:

• small and medium-sized enterprises through framework loans to commercial banks,

• large enterprises through loans under risk-sharing models, and

• particularly affected clients operating in tourism as strategic industry through direct lending.

In cooperation with the Ministry of Tourism and Sports, the Bank has offered direct loans for financing liquidity needs of entrepreneurs in tourism at favourable terms and conditions by providing access to the funding from the fund for subsidising interest rates for entrepreneurs in tourism. As a consequence of approving a large number of loans in a relatively short period of time, some activities under the existing manners and procedures of loan application processing provided for in the Credit Risk Management Ordinance have been reduced with an objective of increasing the flow and speed of the loan approval process.

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.

***Adverse effects of the coronavirus pandemic (COVID-19)***

The coronavirus pandemic (COVID-19) has affected and is expected to have a negative effect on the world economy and business activities and conditions in almost all countries in the world, including Croatia. Among other challenges, the Republic of Croatia records an increase in the unemployment rate and a decline in production, while public debt has increased significantly thanks to state aid. In addition, there is an increase in the uncertainties related to collection of receivables from both individuals and companies, especially those in the affected sectors, unpredictability in financial markets, exchange rate volatility and decline in worth of assets and investments, all of which have negatively affected the Bank's performance in the first six months of 2020 and is expected to continue in the future.

The impact of the COVID-19 pandemic began to become apparent at the end of the first quarter of 2020 and had a negative impact on the Bank's results for the period up to 30 June 2020. The main accumulated impacts were:

i) an increase in the cost of risks associated with credit activities, mainly due to deterioration in macroeconomic environment, which had a negative impact on the Bank and the expected credit loss in the amount of HRK 77 million;

(ii) lower fair value of financial assets at fair value through other comprehensive income in the amount of HRK 517 thousand.

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

***Adverse effects of the coronavirus pandemic (COVID-19)(continued)***

The impact of the COVID-19 pandemic on the Bank's operations, financial pos and results of operations, which is expected to be significant, will depend on future and uncertain events and the intensity and consequences arising from the pandemic.

**25.3.1. Risk related to loan commitments**

Bank clients can be issued guarantees and letters of credit with deferred payment terms (also from loan proceeds) in accordance with the same procedure as prescribed for loan commitments to direct clients.

All guarantees are monitored on the basis of validity periods, whereas letters of credit with deferred payment terms are monitored on the basis of maturities. In the case of calling for payment, the Group shall make a payment on behalf of client. For the Group, such obligations generate exposures to risks that are similar to credit risks and they are mitigated by the same procedures that are applied to loans.

**25.3.2. Impairment assessment**

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

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

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

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

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

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

**25.3.2. Impairment assessment (continued)**

For the entire duration of contractual relationship, debtor's creditworthiness is assessed in order to identify possible changes in the client's (debtor's) financial position, i.e. the probability of deterioration in its creditworthiness. When establishing client's creditworthiness, the group of related entities is also taken into account due to the effect of contamination, i.e. the possibility of the transfer of risk among related entities. Creditworthiness of client is monitored through:

* Changes in financial rating of client and entities related to client,
* Criteria whose objective is to identify financial difficulties of client,
* Criteria contained in the client watch list, and
* Criteria for identification of increased credit risk.

A client is considered to duly meet its obligations if it settles all of its obligations fully (principal, interest, commissions, fees and other charges) in the amounts and within the deadlines determined in the respective contracts, where all placements and of-balance sheet liabilities of a client are considered as one.

Collateral assessment is based on the quality of collateral and the assessed value as well as expected period of collection through collateral.

Almost all accounting and prudential authorities have coordinately issued recommendations or measures in the context of the COVID-19 crisis to assess expected losses under IFRS 9, aiming to reduce the impact on measuring expected credit losses, given the difficulties in making reliable macroeconomic forecasts and with the assumption that it is a temporary economic shock.

In particular, moratorium on repayment of principal and interest are not automatically considered as an indicator of a significant increase in credit risk, as was the case before the crisis. Instead, the Bank analyzes whether the moratorium is the result of a temporary or permanent difficulty in repayment. In the case of the Bank, most clients that requested a moratorium and were classified as Level 1 or Level 2 clients before the COVID 19 crisis, retained the same classification.

**25.3.2.1. Definition of default status and exit from default status**

Default status of an individual client occurs when one or both of the following conditions are met:

* it is considered probable that client will not settle its obligations towards HBOR entirely without taking into account the possibility of collection through collateral activation,
* client is more than 90 days overdue in settling its due obligation under any significant loan liability. The significance threshold equals HRK 1,750 and is calculated on the client level by adding due obligations under all client placements.

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

**25.3.2. Impairment assessment (continued)**

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

When assessing the probability of a debtor not settling its obligations entirely, the following elements are considered:

* recognized impairment for credit losses due to identified significant deterioration in credit quality of debtor,
* selling of credit exposure at a considerable economic loss,
* rescheduling or restructuring of credit exposure owing to financial difficulties of debtor,
* bankruptcy or similar proceedings (pre-bankruptcy settlement, liquidation) against debtor,
* appointment of extraordinary administration, revoke of operating license, application of early intervention measures,
* cancellation of contract.

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.

The bank did not classify clients who requested a moratorium in 2020 as cured even though they met the above conditions.

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

**25.3.2. Impairment assessment (continued)**

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

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

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

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

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

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

The approach used for the modelling of PD is based on TTC (Through-the-Cycle) migration matrices for exposures in homogenous groups of direct borrowers and others. Risk categories (bucket) have been identified, and the movements of exposures among the aforementioned categories are analysed.

Risk categories for the aforementioned exposures are defined on the basis of the days overdue and the restructured exposure status. Before the modelling of PD, the data for the preceding relevant period are collected.

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

* from 0 to 30 days overdue – category 1,
* from 31 to 90 days overdue – category 2,
* more than 90 days overdue and restructuring – default status event.

On the basis of the matrices of exposure movements from category to category, a PD 12-month value is calculated. PD marginal values are calculated by further multiplication of matrices and they are used for vector creation. PD borderline value vector is the basis for the calculation of a lifelong PD. The value of a lifelong PD depends on the tenor, i.e. the remaining period until maturity of individual exposure.

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

**25.3.2. Impairment assessment (continued)**

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

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

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

**25.3.2.3. Exposure at default**

For the purpose of modelling exposures at the moment of the occurrence of default status (Exposure at Default, hereinafter: EAD), or for the purpose of calculating credit conversion parameter (Credit Conversion Factor, hereinafter: CCF) and prepayment ratio, the data for the preceding five-year period are taken into account.

Pursuant to the mentioned historical data, the established ratio of premature collection almost equals zero and the loan conversion factor equals 1.

EAD is calculated for each contract. There are two approaches to the calculation of EAD:

* if there is a repayment schedule for exposure – based on the cash flow from the repayment schedule,
* if there is no repayment schedule for exposure – based on exposure amount on the reporting date.

For exposures classified in risk stage 1 and for exposures due, EAD is equal to the current exposure.

For exposures not yet due, lifelong EAD is calculated based on the repayment schedule, taking into account the amounts and the maturity period, but not later than until the final date of exposure maturity (tenor).

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

**25.3.2. Impairment assessment (continued)**

**25.3.2.4. Loss given default**

For groups of direct borrowers and others, loss at the moment of occurrence of the status of non-fulfilment of obligations (Loss Given Default, hereinafter: LGD) is estimated based on transactions after the date of occurrence of loss given default. Each transaction is discounted on the date of occurrence of loss given default by an appropriate discount rate, and the discount factor depends on the time elapsed. All increases after the date of occurrence of loss given default are cumulated with an individual exposure. The result of the mentioned calculation is the collection rate for each exposure in a homogenous group, and the total collection rate for a single homogenous group is comprised of the weighted average of collection rates of all individual exposures.

The probability of exit from the loss given default status is also taken into consideration in the calculation of LGD.

A report of external credit rating agencies is used as foundation for determining LGDs for the groups central government and local and regional government and financial institutions. In the annual reports on the occurrence of loss given default and collection status, credit rating agencies publish both historical and market rates of collection. The market rate of collection is the market price of a bond as compared to its value immediately before or at the moment of bond default. Based on market rates of collection for senior unsecured debt, issuer-weighted recovery rate is determined.

**25.3.2.5. Significant increase in credit risk**

For the purpose of identifying an increased credit risk, changes for all clients of the Group are monitored continuously, but at least once a year. All placements to the client, where an increased credit risk has been identified or in case of individually significant clients, whose exposure exceeds HRK 1,500 thousand and are on the client watch list, on the next reporting date, all financial instruments of the client with increased credit risk are classified to stage 2 based on the observed criteria such as:

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

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

**25.3.2. Impairment assessment (continued)**

**25.3.2.5. Significant increase in credit risk (continued)**

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

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

**25.3.2.6. Grouping financial assets measured on a collective basis**

Credit risk is evaluated on a collective basis for all clients classified into risk stages 1 and 2 as well as for clients in the risk stage 3 belonging to the small loan portfolio. The clients belonging to the small loan portfolio are clients to which HBOR is exposed in the gross amount that is equal or less than HRK 1,500 thousand.

For the purpose of identifying a significant increase in credit risk and recognition of loss allowances for impairment on a collective basis, financial instruments are grouped into the following groups, based on the common features of credit risk, for the purpose of easier evaluation of a significant increase in credit risk:

* + financial institutions,
  + central government and local and regional government,
  + direct borrowers – large,
  + direct borrowers – small and medium-sized,
  + direct borrowers – micro,
  + direct borrowers – citizens,
  + others.

By grouping financial instruments into homogeneous groups, it is ensured that in case of a significant increase in credit risk, the goal of recognizing expected credit losses during the entire lifetime of a financial instrument is attained, even if the evidence on such significant increase in credit risk is still not available on the level of an individual instrument.

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

**25.3.3. Analysis of input for ECL model within the framework of impact of macroeconomic conditions on PD**

When including any information about the future, available sources (Croatian National Bank, Croatian Bureau of Statistics) on macroeconomic conditions are used with a view to projecting their impact on the current value of risk parameters.

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

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

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

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

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

**25.3.3. Analysis of input for ECL model within the framework of impact of macroeconomic conditions on PD (continued)**

In order for the expected credit losses to include the expected increase in client credit risk resulting from the COVID - 19 crisis, the probability of default rate (hereinafter: PD) under the pessimistic scenario has been increased compared to the PD base rate to include the expected default percentage with the scenario probabilities not having been changed. The PD base rate is the historical rate calculated on the basis of data on HBOR's loan portfolio in the period 2012-2019. PD has been stress-tested for homogeneous groups of direct borrowers.

In order to determine the impact of future macroeconomic conditions on expected credit losses, by analysis based on historical data, the connection between macroeconomic conditions and PD is identified. After that, the impact of macroeconomic forecasts on PD values is estimated and the ratio is calculated, by means of which the estimated value of PD in two scenarios, an optimistic and a pessimistic one, is corrected.

**25.3.4. Quantitative analysis of the reliability of the information used to calculate the ECL allowance**

For the application of macroeconomic factors, the Bank uses a methodology with the level of reliability of 90%.

**25.3.5. Overview of modified and restructured loans**

Any amendment to the contractual provisions resulting in the conversion of contractual cash flows from financial assets is deemed to be modification.

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

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

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

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

**25.3.5. Overview of modified and restructured loans (continued)**

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.

**25.3.6. Analysis of risk concentration**

Through its development loan programmes, the Group encompasses the area of the entire Republic of Croatia with emphasis on supported areas. Credit risk is spread across geographic areas, industries, sectors and loan programmes. The Group seeks to avoid excessive concentration of credit risk and support the development of less developed areas of the Republic of Croatia through more favorable terms and conditions and new loan programmes (products) in accordance with the national strategy of development of certain activities.

Through financing of different sectors by stimulating production and development with the purpose of developing the Croatian economy, the Group is creating a better base for repayment of loans and minimization of risk.

As of 30 June 2020, the highest credit exposure of the Group to one debtor equaled HRK 2,848,750 thousand and of the Bank HRK 2,833,870 thousand (31 December 2019: HRK 2,578,585 thousand for the Group and HRK 2,575,661 thousand for the Bank) without considering the effect of mitigation through collateral received.

As a special financial institution, the Bank performs its development role by granting loans to final borrowers via commercial banks with which it has entered into co-operation agreements.

Since the exposure towards some of the banks has reached the maximum permitted level, the Bank, in order to be able to continue performing its development role and make the loans accessible to as many final borrowers as possible, has an approval from the Supervisory Board for an increase in the exposure towards the banks and their associated entities that have, in accordance with HBOR’s internal methodology, been assigned a high rating. The exposure level is maintained by using all instruments and techniques available for mitigating HBOR’s exposure towards the banks.

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

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

**25.3.7. Risk-Sharing Model**

The Risk-Sharing Model covers the manner of implementing HBOR’s loan programmes in cooperation with commercial banks, where HBOR assumes a portion of direct lending risk (e.g. 50%), whereas the commercial bank assumes the risk associated with the other part of the loan (irrespective of whether it is financed from HBOR’s funds or from commercial bank’s funds).

The commercial bank takes the role of the administrative payment and collateral agent and reports to HBOR monthly and quarterly, on the basis of the business cooperation agreement executed between the commercial bank and HBOR, on any changes in creditworthiness of client, changes in provisions, changes in the value of collateral, on whether payments are made duly, on pre-bankruptcy and bankruptcy proceedings and on any other changes in the operations of clients and the repayments of placements

There are several groups/types of risk-sharing model as follows:

* Initially, the sharing of risk with banks was launched through the programmes of the Government of the Republic of Croatia as a promotional measure aimed at strengthening the liquidity of the economy in the economic crisis period. During that time, three risk-sharing models were implemented: the Model A, the Model A+ and the Economy Development Programme.

Due to the scope of activities and the necessity of exceptionally fast action by HBOR, within the framework of the mentioned loan programmes, commercial banks as administrative, payment and collateral agents submitted to HBOR a shortened application form, and consequently, a shortened loan application procedure was adopted.

Further to the shortened procedure, in the mentioned loan programmes, HBOR had not initially entered collaterals in its business records, because it was the obligation of commercial banks to take charge of, and to activate, the collaterals. Subsequently, HBOR entered collaterals covering outstanding placements in its business records if agency businesses with commercial banks were terminated (e.g. because the banks sold their exposures etc.) or placements restructured.

* Exposure under mentioned placements was entered in the business records of HBOR. Other loans under the risk-sharing models under the HBOR loan programmes (primarily investment and restructuring loans, and to a lesser extent loans for liquidity) are implemented in the manner that commercial banks included in the transactions still remain agents (administrative, payment and collateral agents), but HBOR implements a customary procedure as for any other direct loan and enters both exposures and collaterals into the business records at the moment of approving and contracting of placements.
* As part of the measures aimed at supporting the economy in the conditions of the coronavirus pandemic, the possibility has been introduced to grant new liquidity loans to entrepreneurs that have been strongly affected by the crisis caused by the coronavirus pandemic. Due to the expected short deadline for the processing of a large number of loan applications, the existing loan approval procedure set forth in the Credit Risk Management Ordinance has been accelerated and shortened for this purpose.

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

**25.3.8.** **Collaterals and other credit quality (creditworthiness) improvement**

Collateral for the Bank’s placements are:

1. obligatory (bills of exchange and promissory notes),
2. ordinary (property, ships, airplanes, bank guarantees, guarantees from the Republic of Croatia, guarantees from the local and regional authorities, guarantees from HAMAG-BICRO (Croatian Agency for SMSs, Innovation and Investment), insurance policy against political and/or commercial risks), and
3. other collateral (movable property, bills of exchange or guarantees from other companies with solid creditworthiness, fiduciary or pledge of companies’ equity instruments, repossession of cash receivables or assignment for collectible receivables, deposit repossession, restriction of transferability on insurance policy of assets and/or person, pledge on a trademark, etc.).

All Group placements have to be secured with obligatory collateral. Low amount placements must be secured with one obligatory instrument of collateral at least. The selection of eligible collaterals does not depend on the insurance ratio achieved only, but also on the risks identified, with marketable and more valuable collaterals being preferred

Acceptable ordinary and other collateral are classified according to quality in five groups. The evaluation of collateral is based on quality, estimated based on marketability, documentation and possibility of supervision by the Bank as well as the possibility of enforced collection.

When deciding on loan approval, weak creditworthiness cannot be replaced by quality collateral, except when the security instruments are first class instruments: guarantees from the Republic of Croatia, guarantees of local/regional authorities (JLPS), guarantees from HAMAG-BICRO, loan insurance policy and when the Republic of Croatia, JLPS or other government authorities guarantee for clients implicitly.

For the purpose of mitigation of credit risk and reduction of business costs, and in compliance with the Act on the Croatian Bank for Reconstruction and Development, the Group approves part of its placements through financial institutions. As collateral for placements approved to final customers through financial institutions, the Group uses mandatory collateral from commercial banks/leasing companies. The financial institution is obliged to deliver them based on the Mutual business cooperation agreement, but not for each individual placement to the final customer based on that Agreement. In the individual contracts for placements to the final customers, the use of obligatory collateral delivered with the Agreement on mutual business cooperation is contracted. As the financial institutions take on the risk of default by the final customer, they are given the option to contract sufficient collateral with the final customer/leasing company.

Where the loan is approved through a commercial bank, depending on the financial institution’s internal rating, the Bank contracts a sub-mortgage. In this case, either the commercial bank transfers the ownership over the collateral, while the Bank takes a mortgage over the same collateral, or the commercial bank forms a mortgage on the collateral, while the Bank takes a sub-mortgage on the same collateral.

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

**25.3.8.** **Collateral and other credit enhancements (creditworthiness) (continued)**

By signing the Agreement on mutual business cooperation, a transfer of any claims the commercial bank may have towards the final customer is made to HBOR. Pursuant to the Agreement, the commercial bank authorises HBOR to unilaterally inform the bank in written form that, in the case of the commercial bank’s insolvency or threat of liquidation, untimely repayments or default on the commitments agreed in the individual contract on interbank loan or actual (insolvent or regular) liquidation, the Bank assumes the receivable towards the final customer from the commercial bank, with the effect of assignment of receivables instead of contract fulfilment.

Additionally, based on the Agreement on mutual business cooperation and based on the said unilateral statement, the commercial bank authorises HBOR that HBOR may, without having to obtain any further consent or approval from the commercial bank, enter itself into all public registers, books or records as the creditor instead of the commercial bank under any security arrangements for assigned receivables as well as under any other proceedings.

From the moment of the assignment, the final customer is obliged to make all payments related to the assigned receivable directly to HBOR. Should the commercial bank receive any payments in the name of collection of receivables per particular placement, the bank is obliged to immediately transfer the funds to HBOR.

All direct placements are mainly secured with a transfer of ownership or with a mortgage over real estate and, if is possible, the Group obtains as security against credit risk a guarantee from HAMAG-BICRO, a guarantee from the local and regional authority, a guarantee from the Republic of Croatia, etc.

The Group has the right to verify the appraisal of the collateral value and such a confirmed appraisal is considered as the final collateral value.

Depending on the type of collateral, the credit programme, the general terms of security or the decision of an authorised body, the Group has determined the necessary ratio of placements and collateral.

In case of the real estate, the necessary ratio of placement and estimated market value of the real estate should be 1:1.3, except in case of investments on the islands, supported areas where such ratio is 1:1.2. In case of moveable property, the necessary ratio of placement and estimated market value of moveable property should be 1:2. If a lower ratio of the collateral value than those prescribed is proposed, reasons and justifications of deviations from the prescribed ratio are explained.

For liquidity loans directly approved to entrepreneurs in the tourism industry, that have been strongly affected by the crisis caused by the coronavirus pandemic, the collateral coverage of at least 50% of the loan has been made acceptable. The same coverage is provided also to entrepreneurs in other industries to whom the so-called COVID working capital loans are financed under risk-sharing models.

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

**25.3.8.** **Collateral and other credit enhancements (creditworthiness) (continued)**

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).

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

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

The table below shows the highest net credit risk exposures in the Statement of Financial Position and in guarantees and commitments as of the reporting date, before the effect of mitigation through collateral received:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Bank** | |
|  | **Highest exposure**  **30 June**  **2020** | **Highest exposure**  **31 December 2019** | **Highest exposure**  **30 June 2020** | **Highest exposure**  **31 December 2019** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Assets** |  |  |  |  |
| Cash on hand and current accounts with banks | 2,490,813 | 884,402 | 2,475,957 | 881,482 |
| Deposits with other banks | 131,894 | 553,470 | 131,894 | 553,470 |
| Loans to financial institutions | 9,107,681 | 9,447,706 | 9,107,681 | 9,447,706 |
| Loans to other customers | 12,973,711 | 13,699,634 | 12,973,711 | 13,699,634 |
| Financial assets at fair value through profit or loss | 2,064 | 2,234 | 2,064 | 2,234 |
| Financial assets at fair value through other comprehensive income | 2,300,688 | 1,552,565 | 2,261,944 | 1,512,396 |
| Debt instruments at amortized cost | - | 457 | - | - |
| Other assets | 10,184 | 11,875 | 4,978 | 6,341 |
| **Total** | **27,017,035** | **26,152,343** | **26,958,229** | **26,103,263** |
|  |  |  |  |  |
| **Guarantees and commitments** |  |  |  |  |
| Guarantees issued in HRK | 96,317 | 61,481 | 96,317 | 61,481 |
| Issued guarantees in foreign currency | 205,672 | 194,737 | 205,672 | 194,737 |
| Open letters of credit in foreign currency | 1,214 | 11,693 | 1,214 | 11,693 |
| Undrawn loans | 5,657,374 | 3,954,299 | 5,657,374 | 3,954,299 |
| Other irrevocable contingent liabilities | 93 | 93 | 93 | 93 |
| **Total** | **5,960,670** | **4,222,303** | **5,960,670** | **4,222,303** |
| **Total credit risk exposure** | **32,977,705** | **30,374,646** | **32,918,899** | **30,325,566** |

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

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

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

| **Group**  **30 June 2020** | **Republic of Croatia** | **EU**  **countries** | **Other**  **countries** | **Total** |
| --- | --- | --- | --- | --- |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Assets** |  |  |  |  |
| Cash on hand and current accounts with banks | 1,767,087 | 704,027 | 19,699 | 2,490,813 |
| Deposits with other banks | 131,516 | 378 | - | 131,894 |
| Loans to financial institutions | 9,107,681 | - | - | 9,107,681 |
| Loans to other customers | 12,187,065 | - | 786,646 | 12,973,711 |
| Financial assets at fair value through profit or loss | 2,064 | - | - | 2,064 |
| Financial assets at fair value through other comprehensive income | 2,298,384 | 2,304 | - | 2,300,688 |
| Debt instruments at amortized cost | - | - | - | - |
| Other assets | 6,434 | 3,032 | 718 | 10,184 |
| **Total** | **25,500,231** | **709,741** | **807,063** | **27,017,035** |
|  |  |  |  |  |
| **Guarantees and commitments** |  |  |  |  |
| Guarantees issued in HRK | 96,317 | - | - | 96,317 |
| Issued guarantees in foreign currency | 205,672 | - | - | 205,672 |
| Open letters of credit in foreign currency | 1,214 | - | - | 1,214 |
| Undrawn loans | 5,633,262 | - | 24,112 | 5,657,374 |
| Other irrevocable contingent liabilities | 93 | - | - | 93 |
| **Total** | **5,936,558** | **-** | **24,112** | **5,960,670** |
| **Total credit risk exposure** | **31,436,789** | **709,741** | **831,175** | **32,977,705** |

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

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

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

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

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

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

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

| **Bank**  **30 June 2020** | **Republic of Croatia** | **EU**  **countries** | **Other**  **countries** | **Total** |
| --- | --- | --- | --- | --- |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Assets** |  |  |  |  |
| Cash on hand and current accounts with banks | 1,752,231 | 704,027 | 19,699 | 2,475,957 |
| Deposits with other banks | 131,516 | 378 | - | 131,894 |
| Loans to financial institutions | 9,107,681 | - | - | 9,107,681 |
| Loans to other customers | 12,187,065 | - | 786,646 | 12,973,711 |
| Financial assets at fair value through profit or loss | 2,064 | - | - | 2,064 |
| Financial assets at fair value through other comprehensive income | 2,259,640 | 2,304 | - | 2,261,944 |
| Other assets | 4,961 | - | 17 | 4,978 |
| **Total** | **25,445,158** | **706,709** | **806,362** | **26,958,229** |
|  |  |  |  |  |
| **Guarantees and commitments** |  |  |  |  |
| Guarantees issued in HRK | 96,317 | - | - | 96,317 |
| Issued guarantees in foreign currency | 205,672 | - | - | 205,672 |
| Open letters of credit in foreign currency | 1,214 | - | - | 1,214 |
| Undrawn loans | 5,633,262 | - | 24,112 | 5,657,374 |
| Other irrevocable contingent liabilities | 93 | - | - | 93 |
| **Total** | **5,936,558** | **-** | **24,112** | **5,960,670** |
| **Total credit risk exposure** | **31,381,716** | **706,709** | **830,474** | **32,918,899** |

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

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

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

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

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

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

Concentration of assets and guarantees and commitments, according to industry, net exposure, before and after the effect of mitigation through collateral received:

| **Group** | **Highest exposure** | **Highest exposure after the effect of mitigation through collateral received** | **Highest exposure** | **Highest exposure after the effect of mitigation through collateral received** |
| --- | --- | --- | --- | --- |
|  | **30 June**  **2020** | **30 June**  **2020** | **31 December 2019** | **31 December 2019** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |
| Financial intermediation and insurance | 15,200,528 | - | 13,082,662 | - |
| Water and electric supply and other infrastructure | 1,894,120 | 1,100,175 | 1,859,000 | 1,571,256 |
| Tourism | 3,395,045 | 498,637 | 3,318,197 | 554,485 |
| Transport, warehousing and connections | 2,251,710 | 630,184 | 1,958,455 | 764,034 |
| Shipbuilding | 1,408,934 | 10,925 | 1,227,960 | 12,190 |
| Agriculture and fishery | 462,647 | 129,308 | 478,368 | 167,299 |
| Food industry | 1,010,621 | 125,084 | 864,720 | 500,569 |
| Construction industry | 1,982,175 | 179,799 | 1,217,933 | 113,301 |
| Other industry | 385,889 | 111,431 | 370,868 | 92,440 |
| Public administration | 2,289,410 | 2,288,821 | 3,040,733 | 3,040,152 |
| Education | 40,405 | 37,897 | 40,702 | 37,768 |
| Manufacture of basic metals and fabricated metal products, except machinery and equipment | 181,319 | 16,402 | 182,417 | 10,727 |
| Manufacture of chemicals and chemical products | 66,501 | 19,665 | 70,214 | 54,088 |
| Manufacture of other non-metallic mineral products | 165,672 | 44,041 | 175,818 | 62,144 |
| Pharmaceutical industry | 363,336 | 1,178 | 392,460 | 1,129 |
| Other | 1,879,393 | 242,167 | 2,094,139 | 329,475 |
|  |  |  |  |  |
| **Total credit risk exposure** | **32,977,705** | **5,435,714** | **30,374,646** | **7,311,057** |

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

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

Concentration of assets and guarantees and commitments, according to industry, net exposure, before and after the effect of mitigation through collateral received:

| **Bank** | **Highest exposure** | **Highest exposure after the effect of mitigation through collateral received** | **Highest exposure** | **Highest exposure**  **after the**  **effect of mitigation through collateral received** |
| --- | --- | --- | --- | --- |
|  | **30 June**  **2020** | **30 June**  **2020** | **31 December 2019** | **31 December 2019** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |
| Financial intermediation and insurance | 15,181,941 | - | 13,075,404 | - |
| Water and electric supply and other infrastructure | 1,894,120 | 1,100,175 | 1,858,999 | 1,571,255 |
| Tourism | 3,395,039 | 498,632 | 3,318,194 | 554,481 |
| Transport, warehousing and connections | 2,251,655 | 630,130 | 1,958,417 | 763,997 |
| Shipbuilding | 1,408,934 | 10,925 | 1,227,960 | 12,190 |
| Agriculture and fishery | 462,589 | 129,250 | 478,368 | 167,299 |
| Food industry | 1,010,484 | 124,947 | 864,559 | 500,409 |
| Construction industry | 1,981,921 | 179,545 | 1,217,783 | 113,151 |
| Other industry | 385,512 | 111,054 | 370,867 | 92,440 |
| Public administration | 2,251,643 | 2,251,054 | 3,000,995 | 3,000,414 |
| Education | 40,405 | 37,897 | 40,702 | 37,768 |
| Manufacture of basic metals and fabricated metal products, except machinery and equipment | 181,224 | 16,307 | 182,351 | 10,661 |
| Manufacture of chemicals and chemical products | 66,487 | 19,651 | 70,192 | 54,066 |
| Manufacture of other non-metallic mineral products | 165,672 | 44,041 | 175,818 | 62,144 |
| Pharmaceutical industry | 362,157 | - | 391,331 | - |
| Other | 1,879,116 | 241,889 | 2,093,626 | 328,962 |
|  |  |  |  |  |
| **Total credit risk exposure** | **32,918,899** | **5,395,497** | **30,325,566** | **7,269,237** |

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

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

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

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

The fair value of collateral for the Group as of 30 June 2020 amounted to HRK 27,541,991 thousand (31 December 2019: HRK 23,063,589 thousand) and for the Bank HRK 27,523,402 thousand (31 December 2019: HRK 23,056,329 thousand).

Net highest exposure as at 30 June 2020 for the Group amounted to HRK 5,435,714 thousand (31 December 2019: HRK 7,311,057 thousand) and for the Bank HRK 5,395,497 thousand (31 December 2019: HRK 7,269,237 thousand).

In the total net highest exposure after the effect of mitigation through collateral received as of 30 June 2020, the credit risk of HRK 3,793,557 thousand for the Group (31 December 2019: HRK 4,529,750 thousand) and HRK 3,755,790 thousand for the Bank (31 December 2019: HRK 4,490,125 thousand) is not covered with ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia for the Group and the Bank of HRK 571,442 thousand (31 December 2019: HRK 2,068,112 thousand), from local (regional) authorities of HRK 719,858 thousand (31 December 2019: HRK 708,453 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 205,675 thousand (31 December 2019: HRK 204,175 thousand), government funds of HRK 102 thousand (31 December 2019: HRK 86 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 2,296,480 thousand for the Group and HRK 2,258,713 thousand for the Bank (31 December 2019: HRK 1,548,924 thousand for the Group and HRK 1,509,299 thousand for the Bank).

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

Financial intermediation includes mainly commercial bank.

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

**Credit risk quality according to type of financial assets**

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Group**  **30 June 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** | **Net exposure of portfolio after the effect of mitigation through collateral received Stage 1** | **Net exposure of portfolio after the effect of mitigation through collateral received Stage 2** | **Net exposure of portfolio after the effect of mitigation through collateral received Stage 3** | **Net exposure of portfolio after the effect of mitigation through collateral received POCI** | **Not subject to IFRS 9 after the effect of mitigation through**  **collateral received** | **Net exposure of total portfolio after the effect of mitigation through collateral received** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Assets** |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash on hand and current accounts with banks | 2,490,813 | - | - | - | - | 2,490,813 | - | - | - | - | - | - |
| Deposits with other banks | 131,894 | - | - | - | - | 131,894 | - | - | - | - | - | - |
| Loans to financial institutions | 9,032,494 | 64,512 | 10,675 | - | - | 9,107,681 | - | - | - | - | - | - |
| Loans to other customers | 9,197,577 | 1,128,323 | 1,509,133 | 1,138,678 | - | 12,973,711 | 2,277,899 | 113,786 | 312,532 | 39,882 | - | 2,744,099 |
| Financial assets at fair value through profit or loss | - | - | - | - | 2,064 | 2,064 | - | - | - | - | 2,064 | 2,064 |
| Financial assets at fair value through other comprehensive income | 2,298,384 | - | 2,304 | - | - | 2,300,688 | 2,298,384 | - | 2,304 |  |  | 2,300,688 |
| Debt instruments at amortized cost | - | - | - | - | - | - | - | - | - | - | - | - |
| Other assets | 8,340 | 31 | 1,774 | 39 | - | 10,184 | 2,456 | 30 | 1,709 | 38 |  | 4,233 |
| **Total** | **23,159,502** | **1,192,866** | **1,523,886** | **1,138,717** | **2,064** | **27,017,035** | **4,578,739** | **113,816** | **316,545** | **39,920** | **2,064** | **5,051,084** |
| **Guarantees and commitments** |  |  |  |  |  |  |  |  |  |  |  |  |
| Guarantees issued in HRK | 77,322 | 8,623 | 10,372 | - | - | 96,317 | 48,303 | 8,024 | 10,372 | - | - | 66,699 |
| Issued guarantees in foreign currency | 8,712 | 38,019 | 158,941 | - | - | 205,672 | 296 | 4,878 | 51,494 | - | - | 56,668 |
| Open letters of credit in foreign currency |  |  |  |  | 1,214 | 1,214 | - | - | - |  |  |  |
| Undrawn loans | 5,291,986 | 134,975 | 7,772 | 222,641 | - | 5,657,374 | 226,285 | 31,737 | 3,148 | - | - | 261,170 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 | 93 | - | - | - | - | 93 |
| **Total** | **5,378,113** | **181,617** | **177,085** | **222,641** | **1,214** | **5,960,670** | **274,977** | **44,639** | **65,014** | **-** | **-** | **384,630** |
| **Total credit risk exposure** | **28,537,615** | **1,374,483** | **1,700,971** | **1,361,358** | **3,278** | **32,977,705** | **4,853,716** | **158,455** | **381,559** | **39,920** | **2,064** | **5,435,714** |

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

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

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Group**  **31 December 2019** | **Net**  **exposure of portfolio - risk Stage 1** | **Net**  **exposure of portfolio - risk Stage 2** | **Net**  **exposure of portfolio - risk Stage 3** | **Net**  **exposure of portfolio of risk POCI** | **Not subject to IFRS 9** | **Net exposure of total portfolio** | **Net exposure of portfolio after the effect of mitigation through collateral received Stage 1** | **Net exposure of portfolio after the effect of mitigation through collateral received Stage 2** | **Net exposure of portfolio after the effect of mitigation through collateral received Stage 3** | **Net exposure of portfolio after the effect of mitigation through collateral received POCI** | **Not subject to IFRS 9 after the effect of mitigation through**  **collateral received** | **Net exposure of total portfolio after the effect of mitigation through collateral received** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Assets** |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash on hand and current accounts with banks | 884,402 | - | - | - | - | 884,402 | - | - | - | - | - | - |
| Deposits with other banks | 553,470 | - | - | - | - | 553,470 | - | - | - | - | - | - |
| Loans to financial institutions | 9,363,335 | 73,076 | 11,295 | - | - | 9,447,706 | - | - | - | - | - | - |
| Loans to other customers | 10,084,080 | 1,136,882 | 1,414,424 | 1,064,248 | - | 13,699,634 | 4,065,803 | 164,484 | 194,117 | 597,289 | - | 5,021,693 |
| Financial assets at fair value through profit or loss | - | - | - | - | 2,234 | 2,234 | - | - | - | - | 2,234 | 2,234 |
| Financial assets at fair value through other comprehensive income | 1,549,468 | 875 | 2,222 | - | - | 1,552,565 | 1,549,468 | 875 | 2,222 | - | - | 1,552,565 |
| Debt instruments at amortized cost | 457 | - | - | - | - | 457 | 457 | - | - | - | - | 457 |
| Other assets | 10,126 | 55 | 1,656 | 38 | - | 11,875 | 1,195 | 50 | 1,345 | - | - | 2,590 |
| **Total** | **22,445,338** | **1,210,888** | **1,429,597** | **1,064,286** | **2,234** | **26,152,343** | **5,616,923** | **165,409** | **197,684** | **597,289** | **2,234** | **6,579,539** |
| **Guarantees and commitments** |  |  |  |  |  |  |  |  |  |  |  |  |
| Guarantees issued in HRK | 49,769 | - | 11,712 | - | - | 61,481 | 9,003 | - | 6,844 | - | - | 15,847 |
| Issued guarantees in foreign currency | 11,072 | 32,095 | 151,570 | - | - | 194,737 | 1,764 | - | 59,816 | - | - | 61,580 |
| Open letters of credit in foreign currency | - | - | - | - | 11,693 | 11,693 | - | - | - | - | - | - |
| Undrawn loans | 3,481,864 | 346,839 | - | 125,596 | - | 3,954,299 | 615,977 | 38,021 | - | - | - | 653,998 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 | 93 | - | - | - | - | 93 |
| **Total** | **3,542,798** | **378,934** | **163,282** | **125,596** | **11,693** | **4,222,303** | **626,837** | **38,021** | **66,660** | **-** | **-** | **731,518** |
| **Total credit risk exposure** | **25,988,136** | **1,589,822** | **1,592,879** | **1,189,882** | **13,927** | **30,374,646** | **6,243,760** | **203,430** | **264,344** | **597,289** | **2,234** | **7,311,057** |

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

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

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **30 June 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** | **Net exposure of portfolio after the effect of mitigation through collateral received Stage 1** | **Net exposure of portfolio after the effect of mitigation through collateral received Stage 2** | **Net exposure of portfolio after the effect of mitigation through collateral received Stage 3** | **Net exposure of portfolio after the effect of mitigation through collateral received POCI** | **Not subject to IFRS 9 after the effect of mitigation through**  **collateral received** | **Net exposure of total portfolio after the effect of mitigation through collateral received** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Assets** |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash on hand and current accounts with banks | 2,475,957 | - | - | - | - | 2,475,957 | - | - | - | - | - | - |
| Deposits with other banks | 131,894 | - | - | - | - | 131,894 | - | - | - | - | - | - |
| Loans to financial institutions | 9,032,494 | 64,512 | 10,675 | - | - | 9,107,681 | - | - | - | - | - | - |
| Loans to other customers | 9,197,577 | 1,128,323 | 1,509,133 | 1,138,678 | - | 12,973,711 | 2,277,899 | 113,786 | 312,532 | 39,882 | - | 2,744,099 |
| Financial assets at fair value through profit or loss | - | - | - | - | 2,064 | 2,064 | - | - | - | - | 2,064 | 2,064 |
| Financial assets at fair value through other comprehensive income | 2,259,640 | - | 2,304 | - | - | 2,261,944 | 2,259,640 | - | 2,304 | - | - | 2,261,944 |
| Other assets | 3,134 | 31 | 1,774 | 39 | - | 4,978 | 983 | 30 | 1,709 | 38 | - | 2,760 |
| **Total** | **23,100,696** | **1,192,866** | **1,523,886** | **1,138,717** | **2,064** | **26,958,229** | **4,538,522** | **113,816** | **316,545** | **39,920** | **2,064** | **5,010,867** |
| **Guarantees and commitments** |  |  |  |  |  |  |  |  |  |  |  |  |
| Guarantees issued in HRK | 77,322 | 8,623 | 10,372 | - | - | 96,317 | 48,303 | 8,024 | 10,372 | - | - | 66,699 |
| Issued guarantees in foreign currency | 8,712 | 38,019 | 158,941 | - | - | 205,672 | 296 | 4,878 | 51,494 | - | - | 56,668 |
| Open letters of credit in foreign currency | - | - | - | - | 1,214 | 1,214 | - | - | - | - | - |  |
| Undrawn loans | 5,291,986 | 134,975 | 7,772 | 222,641 | - | 5,657,374 | 226,285 | 31,737 | 3,148 | - | - | 261,170 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 | 93 | - | - | - | - | 93 |
| **Total** | **5,378,113** | **181,617** | **177,085** | **222,641** | **1,214** | **5,960,670** | **274,977** | **44,639** | **65,014** | **-** | **-** | **384,630** |
| **Total credit risk exposure** | **28,478,809** | **1,374,483** | **1,700,971** | **1,361,358** | **3,278** | **32,918,899** | **4,813,499** | **158,455** | **381,559** | **39,920** | **2,064** | **5,395,497** |

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

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

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **31 December 2019** | **Net**  **exposure of portfolio - risk Stage 1** | **Net**  **exposure of portfolio - risk Stage 2** | **Net**  **exposure of portfolio - risk Stage 3** | **Net**  **exposure of portfolio of risk POCI** | **Not subject to IFRS 9** | **Net exposure of total portfolio** | **Net exposure of portfolio after the effect of mitigation through collateral received Stage 1** | **Net exposure of portfolio after the effect of mitigation through collateral received Stage 2** | **Net exposure of portfolio after the effect of mitigation through collateral received Stage 3** | **Net exposure of portfolio after the effect of mitigation through collateral received POCI** | **Not subject to IFRS 9 after the effect of mitigation through**  **collateral received** | **Net exposure of total portfolio after the effect of mitigation through collateral received** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Assets** |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash on hand and current accounts with banks | 881,482 | - | - | - | - | 881,482 | - | - | - | - | - | - |
| Deposits with other banks | 553,470 | - | - | - | - | 553,470 | - | - | - | - | - | - |
| Loans to financial institutions | 9,363,335 | 73,076 | 11,295 | - | - | 9,447,706 | - | - | - | - | - | - |
| Loans to other customers | 10,084,080 | 1,136,882 | 1,414,424 | 1,064,248 | - | 13,699,634 | 4,065,803 | 164,484 | 194,117 | 597,289 | - | 5,021,693 |
| Financial assets at fair value through profit or loss | - | - | - | - | 2,234 | 2,234 | - | - | - | - | 2,234 | 2,234 |
| Financial assets at fair value through other comprehensive income | 1,509,299 | 875 | 2,222 | - | - | 1,512,396 | 1,509,299 | 875 | 2,222 | - | - | 1,512,396 |
| Other assets | 4,592 | 55 | 1,656 | 38 | - | 6,341 | 1 | 50 | 1,345 | - | - | 1,396 |
| **Total** | **22,396,258** | **1,210,888** | **1,429,597** | **1,064,286** | **2,234** | **26,103,263** | **5,575,103** | **165,409** | **197,684** | **597,289** | **2,234** | **6,537,719** |
| **Guarantees and commitments** |  |  |  |  |  |  |  |  |  |  |  |  |
| Guarantees issued in HRK | 49,769 | - | 11,712 | - | - | 61,481 | 9,003 | - | 6,844 | - | - | 15,847 |
| Issued guarantees in foreign currency | 11,072 | 32,095 | 151,570 | - | - | 194,737 | 1,764 | - | 59,816 | - | - | 61,580 |
| Open letters of credit in foreign currency | - | - | - | - | 11,693 | 11,693 | - | - | - | - | - | - |
| Undrawn loans | 3,481,864 | 346,839 | - | 125,596 | - | 3,954,299 | 615,977 | 38,021 | - | - | - | 653,998 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 | 93 | - | - | - | - | 93 |
| **Total** | **3,542,798** | **378,934** | **163,282** | **125,596** | **11,693** | **4,222,303** | **626,837** | **38,021** | **66,660** | **-** | **-** | **731,518** |
| **Total credit risk exposure** | **25,939,056** | **1,589,822** | **1,592,879** | **1,189,882** | **13,927** | **30,325,566** | **6,201,940** | **203,430** | **264,344** | **597,289** | **2,234** | **7,269,237** |

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

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

As at 30 June 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 1,496,557 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 571,024 thousand, local and regional authorities of HRK 719,858 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 205,675 thousand.

As at 30 June 2020 the amount of financial assets at fair value through other comprehensive income is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 2,296,480 thousand for the Group and HRK 2,258,713 thousand for the Bank.

As at 30 June 2020 other assets of HRK 427 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

As at 31 December 2019 in the total net highest exposure of the Group and the Bank after the effect of mitigation through collateral received, the amount of loans to other customers of HRK 2,979,445 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 2,066,817 thousand, local and regional authorities of HRK 708,453 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 204,175 thousand.

As at 31 December 2019 the amount of financial assets at fair value through other comprehensive income and debt instruments at amortised cost is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 1,548,924 thousand for the Group and HRK 1,509,299 thousand for the Bank.

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

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

*Allowances*

The following tablesshow reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument by risk category:

**Cash on hand and current accounts with banks**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Group** |  | | | | |
| **30 June 2020** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |
| Balance at 1 January 2020 | 483 | - | - | - | 483 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Net increase of loss allowance | 1,459 | - | - | - | 1,459 |
| Net foreign exchange loss on loss allowances | 9 | - | - | - | 9 |
| **Balance at 30 June 2020** | **1,951** | **-** | **-** | **-** | **1,951** |

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

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

*Allowances*

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Bank** |  | | | | |
| **30 June 2020** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |
| Balance at 1 January 2020 | 479 | - | - | - | 479 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Net increase of loss allowance | 1,440 | - | - | - | 1,440 |
| Net foreign exchange loss on loss allowances | 9 | - | - | - | 9 |
| **Balance at 30 June 2020** | **1,928** | **-** | **-** | **-** | **1,928** |

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

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

*Allowances*

**Deposits with other banks**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Group and Bank** |  | | | | |
| **30 June 2020** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |
| Balance at 1 January 2020 | 1,256 | - | - | - | 1,256 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Net release of loss allowance | (512) | - | - | - | (512) |
| Net foreign exchange loss on loss allowances | 19 | - | - | - | 19 |
| **Balance at 30 June 2020** | **763** | **-** | **-** | **-** | **763** |

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

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

*Allowances*

**Loans to financial institutions**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Group and Bank** |  | | | | |
| **30 June 2020** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |
| Balance at 1 January 2020 | 37,098 | 10,543 | 11,057 | - | 58,698 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Net release of loss allowance | (3,946) | (1,361) | (245) | - | (5,552) |
| Unwind – changes due to the lapse of time | - | - | 15 | - | 15 |
| Loss allowances transferred from/to loans to other customers | - | (36) | - | - | (36) |
| Net foreign exchange loss on loss allowances | 201 | 120 | 34 | - | 355 |
| **Balance at 30 June 2020** | **33,353** | **9,266** | **10,861** | **-** | **53,480** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Group and Bank** |  | | | | |
| **31 December 2019** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |
| Balance at 1 January 2019 | 78,126 | 20,941 | 18,087 | - | 117,154 |
| Transfer to Stage 1 | 251 | (251) | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Net release of loss allowance | (41,274) | (10,177) | (7,035) | - | (58,486) |
| Unwind – changes due to the lapse of time | - | - | 4 | - | 4 |
| Loss allowances transferred from/to loans to other customers | (3) | - | - | - | (3) |
| Net foreign exchange loss on loss allowances | (2) | 30 | 1 | - | 29 |
| **Balance at 31 December 2019** | **37,098** | **10,543** | **11,057** | **-** | **58,698** |

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

*Allowances*

**Loans to other customers**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Group and Bank** |  | | | | |
| **30 June 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 | 102,357 | (92,096) | (10,261) | - | - |
| Transfer to Stage 2 | (10,220) | 16,260 | (6,040) | - | - |
| Transfer to Stage 3 | (4,651) | (70,073) | 57,256 | 17,468 | - |
| Net increase/(release) of loss allowance | (49,474) | 81,166 | (6,688) | (8,968) | 16,036 |
| Write-offs | - | - | (114) | - | (114) |
| Unwind – changes due to the lapse of time | (415) | (218) | 11,386 | 10,493 | 21,246 |
| Loss allowances transferred to/from loans to financial institutions | - | 36 | - | - | 36 |
| Acquisition of immovable property | (690) | - | (109) | - | (799) |
| Interest transferred from the off-balance sheet records and other | - | - | - | 6,010 | 6,010 |
| Net foreign exchange losses on loss allowances | 4,292 | 6,344 | 11,808 | 264 | 22,708 |
| **Balance at 30 June 2020** | **344,144** | **569,370** | **2,370,752** | **145,931** | **3,430,197** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Group and Bank** |  | | | | |
| **31 December 2019** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |
| Balance at 1 January 2019 | 351,878 | 494,557 | 2,469,639 | 64,222 | 3,380,296 |
| Transfer to Stage 1 | 322,355 | (246,453) | (75,902) | - | - |
| Transfer to Stage 2 | (55,309) | 60,546 | (5,237) | - | - |
| Transfer to Stage 3 | (1,695) | (127,555) | 42,943 | 86,307 | - |
| Net increase/(release) of loss allowance | (312,295) | 445,262 | (116,126) | (49,977) | (33,136) |
| Write-offs | (197) | (10) | (26,544) | - | (26,751) |
| Unwind – changes due to the lapse of time | (2,913) | (64) | 27,565 | 9,030 | 33,618 |
| Loss allowances transferred to/from loans to financial institutions | 3 | - | - | - | 3 |
| Acquisition of immovable property | - | - | (6,475) | - | (6,475) |
| Collection of interest transferred from the off-balance sheet records | - | - | - | - | - |
| Conversion of receivables into shares | - | - | (1,812) | - | (1,812) |
| Write-of due to sale of receivables | - | - | (52) | - | (52) |
| Other | - | - | 36 | 10,221 | 10,257 |
| Net foreign exchange losses on loss allowances | 1,118 | 1,668 | 5,479 | 861 | 9,126 |
| **Balance at 31 December 2019** | **302,945** | **627,951** | **2,313,514** | **120,664** | **3,365,074** |

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

*Allowances*

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Group** |  | | | | |
| **30 June 2020** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |
| Balance at 1 January 2020 | 1,422 | 426 | 1,507 | - | 3,355 |
| Transfer to Stage 1 | 426 | (426) | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Net increase of loss allowance | 348 | - | 71 | - | 419 |
| Net foreign exchange gain on loss allowances | 8 | - | 33 | - | 41 |
| **Balance at 30 June 2020** | **2,204** | **-** | **1,611** | **-** | **3,815** |

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

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

*Allowances*

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Bank** |  | | | | |
| **30 June 2020** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |
| Balance at 1 January 2020 | 1,350 | 426 | 1,507 | - | 3,283 |
| Transfer to Stage 1 | 426 | (426) | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Net increase of loss allowance | 349 | - | 71 | - | 420 |
| Net foreign exchange gain on loss allowances | 8 | - | 33 | - | 41 |
| **Balance at 30 June 2020** | **2,133** | **-** | **1,611** | **-** | **3,744** |

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

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

*Allowances*

**Other assets**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Group** |  | | | | |
| **30 June 2020** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |
| Balance at 1 January 2020 | 164 | 18 | 35,382 | 6 | 35,570 |
| Transfer to Stage 1 | 4 | - | (4) | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | (1) | 1 | - | - |
| Net increase/(release) of loss allowance | (48) | (12) | 608 | 2 | 550 |
| Foreclosed assets | - | - | (6) | - | (6) |
| Other adjustments | 31 | - | - | - | 31 |
| Net foreign exchange gain on loss allowances | - | - | 19 | - | 19 |
| **Balance at 30 June 2020** | **151** | **5** | **36,000** | **8** | **36,164** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Group** |  | | | | |
| **31 December 2019** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |
| Balance at 1 January 2019 | 281 | - | 33,837 | - | 34,118 |
| Transfer to Stage 1 | 2 | - | (2) | - | - |
| Transfer to Stage 2 | (1) | 1 | - | - | - |
| Transfer to Stage 3 | - | (6) | (36) | 42 | - |
| Net increase/(release) of loss allowance | (40) | 23 | 1,614 | (36) | 1,561 |
| Other adjustments | (2) | - | - | - | (2) |
| Write-offs | (76) | - | (38) | - | (114) |
| Net foreign exchange gain on loss allowances | - | - | 7 | - | 7 |
| **Balance at 31 December 2019** | **164** | **18** | **35,382** | **6** | **35,570** |

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

*Allowances*

**Other assets**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Bank** |  | | | | |
| **30 June 2020** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |
| Balance at 1 January 2020 | 30 | 18 | 35,382 | 6 | 35,436 |
| Transfer to Stage 1 | 4 | - | (4) | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | (1) | 1 | - | - |
| Net increase/(release) of loss allowance | (8) | (12) | 608 | 2 | 590 |
| Foreclosed assets | - | - | (6) | - | (6) |
| Write-offs | - | - | - | - | - |
| Net foreign exchange loss on loss allowances | - | - | 19 | - | 19 |
| **Balance at 30 June 2020** | **26** | **5** | **36,000** | **8** | **36,039** |

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

**25. Risk management (continued)**

**25.3. Credit risk (continued)**

*Allowances*

**Guarantees and commitments**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Group and Bank** |  | | | | |
| **30 June 2020** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |
| Balance at 1 January 2020 | 24,946 | 14,289 | 15,918 | 2,563 | 57,716 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | (3,629) | 3,629 | - | - |
| Net increase/(release)  of loss allowance | (13,734) | 1,240 | 43,916 | 1,956 | 33,378 |
| Net foreign exchange (gain)/loss on loss allowances | 1,511 | (817) | 110 | 25 | 829 |
| **Balance at 30 June 2020** | **12,723** | **11,083** | **63,573** | **4,544** | **91,923** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Group and Bank** |  | | | | |
| **31 December 2019** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |
| Balance at 1 January 2019 | 9,170 | 65,094 | 175,996 | 11,023 | 261,283 |
| Transfer to Stage 1 | 14,916 | (14,916) | - | - | - |
| Transfer to Stage 2 | 2 | (2) | - | - | - |
| Transfer to Stage 3 | - | - | (2,904) | 2,904 | - |
| Net increase/(release)  of loss allowance | 904 | (36,026) | (157,600) | (11,368) | (204,090) |
| Net foreign exchange (gain)/loss on loss allowances | (46) | 139 | 426 | 4 | 523 |
| **Balance at 31 December 2019** | **24,946** | **14,289** | **15,918** | **2,563** | **57,716** |

**25. Risk management (continued)**

**25.4. Liquidity risk**

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 30 June 2020 and 31 December 2019 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Group**  **30 June 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 | 2,490,818 | - | - | - | - | 2,490,818 |
| Deposits with other banks | 131,516 | - | - | - | 378 | 131,894 |
| Loans to financial institutions\* | 166,914 | 461,132 | 1,158,898 | 2,536,217 | 4,784,520 | 9,107,681 |
| Loans to other customers | 1,708,227 | 421,364 | 857,597 | 2,310,863 | 7,675,660 | 12,973,711 |
| Financial assets at fair value through profit or loss | 180,993 | - | - | - | 2,064 | 183,057 |
| Financial assets at fair value through other comprehensive income | 2,317,023 | 10,429 | 19 | - | - | 2,327,471 |
| Property, plant and equipment and intangible assets | - | - | - | - | 48,630 | 48,630 |
| Foreclosed assets | - | - | 2,044 | 20,679 | 883 | 23,606 |
| Other assets | 9,129 | 4,316 | 12,893 | 9,141 | 1,115 | 36,594 |
| **Total assets** | **7,004,620** | **897,241** | **2,031,451** | **4,876,900** | **12,513,250** | **27,323,462** |
|  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |
| Deposits from customers | 198,721 | 42,516 | 21,895 | 45,122 | 62,296 | 370,550 |
| Borrowings | 244,810 | 318,392 \*\* | 1,690,521 | 4,296,199 | 9,597,659 | 16,147,581 |
| Debt securities issued | - | - | - | - | - | - |
| Provisions for guarantees, commitments and other liabilities | 85,211 | 3,717 | 12,057 | 24,631 | 25,528 | 151,144 |
| Other liabilities | 201,817 | 10,885 | 30,742 | 62,189 | 52,555 | 358,188 |
| **Total liabilities** | **730,559** | **375,510** | **1,755,215** | **4,428,141** | **9,738,038** | **17,027,463** |
| **Liquidity gap** | **6,274,061** | **521,731** | **276,236** | **448,759** | **2,775,212** | **10,295,999** |
|  |  |  |  |  |  |  |
| **Guarantees and commitments** |  |  |  |  |  |  |
| Guarantees issued in HRK | 97,290 | - | - | - | - | 97,290 |
| Issued guarantees in foreign currency | 222,370 | - | - | - | - | 222,370 |
| Open letters of credit in foreign currency | 1,214 | - | - | - | - | 1,214 |
| Undrawn loans | 5,731,626 | - | - | - | - | 5,731,626 |
| EIF – subscribed, not called up capital | 48,376 | - | - | - | - | 48,376 |
| EIF CROGIP Contracted Liability | 7,559 | 15,291 | 40,776 | 101,939 | 98,351 | 263,916 |
| EIF FRC2 Contracted Liability | 369 | 917 | 2,039 | 5,607 | 2,274 | 11,206 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 |
| **Total guarantees and commitments** | **6,108,897** | **16,208** | **42,815** | **107,546** | **100,625** | **6,376,091** |

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

\* *Receivables of HRK 39,264 thousand relate to reverse REPO agreements.*

*\*\* Accrued interest on loans not yet due is allocated to the category from 1 to 3 months.*

**25. Risk management (continued)**

**25.4. Liquidity risk (continued)**

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

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

\* *Receivables of HRK 41,075 thousand relate to reverse REPO agreements.*

*\*\* Accrued interest on loans not yet due is allocated to the category from 1 to 3 months.*

**25. Risk management (continued)**

**25.4. Liquidity risk (continued)**

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 30 June 2020 and 31 December 2019 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **30 June 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 | 2,475,962 | - | - | - | - | 2,475,962 |
| Deposits with other banks | 131,516 | - | - | - | 378 | 131,894 |
| Loans to financial institutions\* | 166,914 | 461,132 | 1,158,898 | 2,536,217 | 4,784,520 | 9,107,681 |
| Loans to other customers | 1,708,227 | 421,364 | 857,597 | 2,310,863 | 7,675,660 | 12,973,711 |
| Financial assets at fair value through profit or loss | 180,993 | - | - | - | 2,064 | 183,057 |
| Financial assets at fair value through other comprehensive income | 2,278,332 | 10,395 | - | - | - | 2,288,727 |
| Investments in subsidiaries | - | - | - | - | 36,124 | 36,124 |
| Property, plant and equipment and intangible assets | - | - | - | - | 47,498 | 47,498 |
| Foreclosed assets | - | - | 2,044 | 20,679 | 883 | 23,606 |
| Other assets | 7,456 | 582 | 12,801 | 9,141 | 792 | 30,772 |
| **Total assets** | **6,949,400** | **893,473** | **2,031,340** | **4,876,900** | **12,547,919** | **27,299,032** |
|  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |
| Deposits from customers | 198,721 | 42,516 | 21,895 | 45,122 | 62,296 | 370,550 |
| Borrowings | 244,810 | 318,392 \*\* | 1,690,521 | 4,296,199 | 9,597,659 | 16,147,581 |
| Debt securities issued | - | - | - | - | - | - |
| Provisions for guarantees, commitments and other liabilities | 85,211 | 3,717 | 11,944 | 24,631 | 25,528 | 151,031 |
| Other liabilities | 201,184 | 7,949 | 25,545 | 52,680 | 54,599 | 341,957 |
| **Total liabilities** | **729,926** | **372,574** | **1,749,905** | **4,418,632** | **9,740,082** | **17,011,119** |
| **Liquidity gap** | **6,219,474** | **520,899** | **281,435** | **458,268** | **2,807,837** | **10,287,913** |
|  |  |  |  |  |  |  |
| **Guarantees and commitments** |  |  |  |  |  |  |
| Guarantees issued in HRK | 97,290 | - | - | - | - | 97,290 |
| Issued guarantees in foreign currency | 222,370 | - | - | - | - | 222,370 |
| Open leters of credit in foreign currency | 1,214 | - | - | - | - | 1,214 |
| Undrawn loans | 5,731,626 | - | - | - | - | 5,731,626 |
| EIF – subscribed, not called up capital | 48,376 | - | - | - | - | 48,376 |
| EIF CROGIP Contracted Liability | 7,559 | 15,291 | 40,776 | 101,939 | 98,351 | 263,916 |
| EIF FRC2 Contracted Liability | 369 | 917 | 2,039 | 5,607 | 2,274 | 11,206 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 |
| **Total guarantees and commitments** | **6,108,897** | **16,208** | **42,815** | **107,546** | **100,625** | **6,376,091** |

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

*\* Receivables of HRK 39,264 thousand relate to reverse REPO agreements.*

*\*\* Accrued interest on loans not yet due is allocated to the category from 1 to 3 months.*

**25. Risk management (continued)**

**25.4. Liquidity risk (continued)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **31 December 2019** | **Up to 1**  **month** | **1 to 3 months** | **3 months to 1 year** | **1 to 3**  **years** | **Over 3**  **years** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Assets** |  |  |  |  |  |  |
| Cash on hand and current accounts with banks | 881,487 | - | - | - | - | 881,487 |
| Deposits with other banks | 33,184 | 519,914 | - | - | 372 | 553,470 |
| Loans to financial institutions\* | 152,358 | 336,007 | 1,259,613 | 2,638,834 | 5,060,894 | 9,447,706 |
| Loans to other customers | 1,656,921 | 149,889 | 2,059,355 | 2,227,319 | 7,606,150 | 13,699,634 |
| Financial assets at fair value through profit or loss | 191,760 | - | - | - | 2,234 | 193,994 |
| Financial assets at fair value through other comprehensive income | 1,527,510 | 11,131 | - | - | - | 1,538,641 |
| Investments in subsidiaries | - | - | - | - | 36,124 | 36,124 |
| Property, plant and equipment and intangible assets | - | - | - | - | 47,309 | 47,309 |
| Foreclosed assets | - | 5,930 | 2,044 | 13,574 | 2,650 | 24,198 |
| Other assets | 7,127 | 1,630 | 10,306 | 4,181 | 678 | 23,922 |
| **Total assets** | **4,450,347** | **1,024,501** | **3,331,318** | **4,883,908** | **12,756,411** | **26,446,485** |
|  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |
| Deposits from customers | 89,551 | 24,257 | 12,248 | 15,152 | 35,561 | 176,769 |
| Borrowings | 353,615 | 315,555\*\* | 1,604,542 | 4,136,517 | 7,990,224 | 14,400,453 |
| Debt securities issued | - | 43,375 | 1,114,916 | - | - | 1,158,291 |
| Provisions for guarantees, commitments and other liabilities | 58,582 | 3,294 | 11,287 | 22,146 | 25,322 | 120,631 |
| Other liabilities | 156,976 | 8,827 | 30,247 | 59,344 | 67,853 | 323,247 |
| **Total liabilities** | **658,724** | **395,308** | **2,773,240** | **4,233,159** | **8,118,960** | **16,179,391** |
| **Liquidity gap** | **3,791,623** | **629,193** | **558,078** | **650,749** | **4,637,451** | **10,267,094** |
|  |  |  |  |  |  |  |
| **Guarantees and commitments** |  |  |  |  |  |  |
| Guarantees issued in HRK | 61,481 | - | - | - | - | 61,481 |
| Issued guarantees in foreign currency | 194,737 | - | - | - | - | 194,737 |
| Open leters of credit in foreign currency | 11,693 | - | - | - | - | 11,693 |
| Undrawn loans | 3,954,299 | - | - | - | - | 3,954,299 |
| EIF – subscribed, not called up capital | 47,632 | - | - | - | - | 47,632 |
| EIF CROGIP Contracted Liability | - | 800 | 34,000 | 113,000 | 112,058 | 259,858 |
| EIF FRC2 Contracted Liability | 300 | 300 | 2,000 | 7,400 | 2,362 | 12,362 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 |
| **Total guarantees and commitments** | **4,270,235** | **1,100** | **36,000** | **120,400** | **114,420** | **4,542,155** |

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

*\* Receivables of HRK 41,075 thousand relate to reverse REPO agreements.*

*\*\* Accrued interest on loans not yet due is allocated to the category from 1 to 3 months.*

**25. Risk management (continued)**

**25.4. Liquidity risk (continued)**

The table below indicates the remaining contractual maturity of financial liabilities, whereas the guarantees and commitments of the Group are classified in the category “up to 1 month”, owing to the possibility of a premature call to meet a liability (undiscounted amounts):

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Group**  **30 June 2020** | **Up to 1 month** | **1 - 3 months** | **3 - 12**  **months** | **1 - 3**  **years** | **Over 3**  **years** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Financial liabilities** |  |  |  |  |  |  |
| Deposits from customers | 198,721 | 42,516 | 21,895 | 45,122 | 62,296 | 370,550 |
| Borrowings | 264,692 | 341,720 | 1,858,392 | 4,657,919 | 10,229,189 | 17,351,912 |
| Debt securities issued | - | - | - | - | - | - |
| Provisions for guarantees, commitments and other liabilities | 85,211 | 3,717 | 12,057 | 24,631 | 25,528 | 151,144 |
| Other liabilities | 201,817 | 10,885 | 30,742 | 62,189 | 52,555 | 358,188 |
| **Total** | **750,441** | **398,838** | **1,923,086** | **4,789,861** | **10,369,568** | **18,231,794** |
|  |  |  |  |  |  |  |
| **Guarantees and commitments** |  |  |  |  |  |  |
| Guarantees issued in HRK | 97,290 | - | - | - | - | 97,290 |
| Issued guarantees in foreign currency | 222,370 | - | - | - | - | 222,370 |
| Open letters of credit in foreign currency | 1,214 | - | - | - | - | 1,214 |
| Undrawn loans | 5,731,626 | - | - | - | - | 5,731,626 |
| EIF – subscribed, not called up capital | 48,376 | - | - | - | - | 48,376 |
| EIF CROGIP Contracted Liability | 7,559 | 15,291 | 40,776 | 101,939 | 98,351 | 263,916 |
| EIF FRC2 Contracted Liability | 369 | 917 | 2,039 | 5,607 | 2,274 | 11,206 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 |
| **Total guarantees and commitments** | **6,108,897** | **16,208** | **42,815** | **107,546** | **100,625** | **6,376,091** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Group**  **31 December 2019** | **Up to 1 month** | **1 - 3 months** | **3 - 12**  **months** | **1 - 3**  **years** | **Over 3**  **years** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Financial liabilities** |  |  |  |  |  |  |
| Deposits from customers | 89,551 | 24,257 | 12,248 | 15,152 | 35,561 | 176,769 |
| Borrowings | 375,094 | 342,026 | 1,757,887 | 4,536,871 | 8,983,313 | 15,995,191 |
| Debt securities issued | - | 43,374 | 1,181,900 | - | - | 1,225,274 |
| Provisions for guarantees, commitments and other liabilities | 58,582 | 3,294 | 11,436 | 22,146 | 25,322 | 120,780 |
| Other liabilities | 157,671 | 12,080 | 35,580 | 67,539 | 66,867 | 339,737 |
| **Total** | **680,898** | **425,031** | **2,999,051** | **4,641,708** | **9,111,063** | **17,857,751** |
| **Guarantees and commitments** |  |  |  |  |  |  |
| Guarantees issued in HRK | 61,481 | *-* | - | - | - | 61,481 |
| Issued guarantees in foreign currency | 194,737 | - | - | - | - | 194,737 |
| Open letters of credit in foreign currency | 11,693 | - | - | - | - | 11,693 |
| Undrawn loans | 3,954,299 | - | - | - | - | 3,954,299 |
| EIF – subscribed, not called up capital | 47,632 | - | - | - | - | 47,632 |
| EIF CROGIP Contracted Liability | - | 800 | 34,000 | 113,000 | 112,058 | 259,858 |
| EIF FRC2 Contracted Liability | 300 | 300 | 2,000 | 7,400 | 2,362 | 12,362 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 |
| **Total guarantees and commitments** | **4,270,235** | **1,100** | **36,000** | **120,400** | **114,420** | **4,542,155** |

**25. Risk management (continued)**

**25.4. Liquidity risk (continued)**

The table below indicates the remaining contractual maturity of financial liabilities, whereas the guarantees and commitments of the Group are classified in the category “up to 1 month”, owing to the possibility of a premature call to meet a liability (undiscounted amounts):

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **30 June 2020** | **Up to 1 month** | **1 - 3 months** | **3 - 12**  **months** | **1 - 3**  **years** | **Over 3 years** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Financial liabilities** |  |  |  |  |  |  |
| Deposits from customers | 198,721 | 42,516 | 21,895 | 45,122 | 62,296 | 370,550 |
| Borrowings | 264,692 | 341,720 | 1,858,392 | 4,657,919 | 10,229,189 | 17,351,912 |
| Debt securities issued | - | - | - | - | - | - |
| Provisions for guarantees, commitments and other liabilities | 85,211 | 3,717 | 11,944 | 24,631 | 25,528 | 151,031 |
| Other liabilities | 201,184 | 7,949 | 25,545 | 52,680 | 54,599 | 341,957 |
| **Total** | **749,808** | **395,902** | **1,917,776** | **4,780,352** | **10,371,612** | **18,215,450** |
|  |  |  |  |  |  |  |
| ***Guarantees and commitments*** |  |  |  |  |  |  |
| Guarantees issued in HRK | 97,290 | - | - | - | - | 97,290 |
| Issued guarantees in foreign currency | 222,370 | - | - | - | - | 222,370 |
| Open letters of credit in foreign currency | 1,214 | - | - | - | - | 1,214 |
| Undrawn loans | 5,731,626 | - | - | - | - | 5,731,626 |
| EIF – subscribed, not called up capital | 48,376 | - | - | - | - | 48,376 |
| EIF CROGIP Contracted Liability | 7,559 | 15,291 | 40,776 | 101,939 | 98,351 | 263,916 |
| EIF FRC2 Contracted Liability | 369 | 917 | 2,039 | 5,607 | 2,274 | 11,206 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 |
| **Total guarantees and commitments** | **6,108,897** | **16,208** | **42,815** | **107,546** | **100,625** | **6,376,091** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **31 December 2019** | **Up to 1 month** | **1 - 3 months** | **3 - 12**  **months** | **1 - 3**  **years** | **Over 3 years** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Financial liabilities** |  |  |  |  |  |  |
| Deposits from customers | 89,551 | 24,257 | 12,248 | 15,152 | 35,561 | 176,769 |
| Borrowings | 375,094 | 342,026 | 1,757,887 | 4,536,871 | 8,983,313 | 15,995,191 |
| Debt securities issued | - | 43,374 | 1,181,900 | - | - | 1,225,274 |
| Provisions for guarantees, commitments and other liabilities | 58,582 | 3,294 | 11,287 | 22,146 | 25,322 | 120,631 |
| Other liabilities | 156,976 | 8,828 | 30,246 | 59,344 | 67,853 | 323,247 |
| **Total** | **680,203** | **421,779** | **2,993,568** | **4,633,513** | **9,112,049** | **17,841,112** |
|  |  |  |  |  |  |  |
| ***Guarantees and commitments*** |  |  |  |  |  |  |
| Guarantees issued in HRK | 61,481 | - | - | - | - | 61,481 |
| Issued guarantees in foreign currency | 194,737 | *-* | - | - | - | 194,737 |
| Open letters of credit in foreign currency | 11,693 | *-* | - | - | - | 11,693 |
| Undrawn loans | 3,954,299 | - | - | - | - | 3,954,299 |
| EIF – subscribed, not called up capital | 47,632 | - | - | - | - | 47,632 |
| EIF CROGIP Contracted Liability | - | 800 | 34,000 | 113,000 | 112,058 | 259,858 |
| EIF FRC2 Contracted Liability | 300 | 300 | 2,000 | 7,400 | 2,362 | 12,362 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 |
| **Total guarantees and commitments** | **4,270,235** | **1,100** | **36,000** | **120,400** | **114,420** | **4,542,155** |

1. **Risk management (continued)**

**25.5. Market risk**

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

**25.5.1. Interest rate risk**

The following tables demonstrate the sensitivity of the Group to the interest rate risk as of 30 June 2020 and 31 December 2019 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter.

Assets and liabilities on which interest is not charged are placed into the non-interest bearing category.

The tables below demonstrate the estimation of Group’s interest rate risk exposure as of 30 June 2020 and 31 December 2019 which may not be indicative for the positions in other periods.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Group**  **30 June 2020** | **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** |
| **Assets** |  |  |  |  |  |  |  |  |
| Cash on hand and current accounts with banks | 738,973 | - | - | - | - | 1,751,845 | 2,490,818 | 738,973 |
| Deposits with other banks | 131,516 | - | - | - | - | 378 | 131,894 | 131,516 |
| Loans to financial institutions | 159,181 | 642,241 | 1,130,675 | 2,476,022 | 4,691,065 | 8,497 | 9,107,681 | 8,904,801 |
| Loans to other customers | 1,767,770 | 462,648 | 1,064,032 | 2,121,475 | 7,358,062 | 199,724 | 12,973,711 | 12,096,868 |
| Financial assets at fair value through profit or loss | - | - | - | - | 2,064 | 180,993 | 183,057 | 2,064 |
| Financial assets at fair value through other comprehensive income | 2,289,882 | - | - | - | - | 37,589 | 2,327,471 | 2,289,882 |
| Other assets | - | - | - | - | - | 36,594 | 36,594 | - |
| **Total assets** | **5,087,322** | **1,104,889** | **2,194,707** | **4,597,497** | **12,051,191** | **2,215,620** | **27,251,226** | **24,164,104** |
|  |  |  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |  |  |
| Deposits from customers | - | - | - | - | - | 370,550 | 370,550 | - |
| Borrowings | 244,810 | 273,396 | 1,808,240 | 4,259,978 | 9,516,161 | 44,996 | 16,147,581 | 15,966,756 |
| Debt securities issued | - | - | - | - | - | - | - | - |
| Provisions for guarantees, commitments and other liabilities | - | - | - | - | - | 151,144 | 151,144 | - |
| Other liabilities | - | - | - | - | - | 358,188 | 358,188 | - |
| **Total liabilities** | **244,810** | **273,396** | **1,808,240** | **4,259,978** | **9,516,161** | **924,878** | **17,027,463** | **15,966,756** |
| **Interest rate gap** | **4,842,512** | **831,493** | **386,467** | **337,519** | **2,535,030** | **1,290,742** | **10,223,763** | **8,197,348** |

1. **Risk management (continued)**

**25.5. Market risk (continued)**

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Group**  **31 December 2019** | **Up to 1 month** | **1 to 3 months** | **3 months to 1 year** | **1 to 3 years** | **Over 3 years** | **Non-interest bearing** | **Total** | **Fixed interest rate** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Assets** |  |  |  |  |  |  |  |  |
| Cash on hand and current accounts with banks | 650,921 | - | - | - | - | 233,486 | 884,407 | 650,921 |
| Deposits with other banks | 33,184 | 520,032 | - | - | - | 254 | 553,470 | 553,216 |
| Loans to financial institutions | 146,639 | 536,191 | 1,224,864 | 2,563,039 | 4,971,304 | 5,669 | 9,447,706 | 9,221,266 |
| Loans to other customers | 1,769,376 | 322,630 | 2,158,440 | 2,012,521 | 7,323,188 | 113,479 | 13,699,634 | 12,908,055 |
| Financial assets at fair value through profit or loss | - | - | - | - | 2,234 | 201,599 | 203,833 | 2,234 |
| Financial assets at fair value through other comprehensive income | 1,540,964 | - | - | - | - | 37,846 | 1,578,810 | 1,540,964 |
| Debt instruments at amortized cost | - | 448 | - | - | - | 9 | 457 | 448 |
| Other assets | - | - | - | - | - | 29,815 | 29,815 | - |
| **Total assets** | **4,141,084** | **1,379,301** | **3,383,304** | **4,575,560** | **12,296,726** | **622,157** | **26,398,132** | **24,877,104** |
|  |  |  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |  |  |
| Deposits from customers | - | - | - | - | - | 176,769 | 176,769 | - |
| Borrowings | 353,615 | 269,056 | 1,730,226 | 4,100,607 | 7,900,450 | 46,499 | 14,400,453 | 14,210,316 |
| Debt securities issued | - | - | 1,114,916 | - | - | 43,375 | 1,158,291 | 1,114,916 |
| Provisions for guarantees, commitments and other liabilities | - | - | - | - | - | 120,780 | 120,780 | - |
| Other liabilities | - | - | - | - | - | 339,737 | 339,737 | - |
| **Total liabilities** | **353,615** | **269,056** | **2,845,142** | **4,100,607** | **7,900,450** | **727,160** | **16,196,030** | **15,325,232** |
| **Interest rate gap** | **3,787,469** | **1,110,245** | **538,162** | **474,953** | **4,396,276** | **(105,003)** | **10,202,102** | **9,551,872** |

1. **Risk management (continued)**

**25.5. Market risk (continued)**

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

The following tables demonstrate the sensitivity of the HBOR to the interest rate risk as of 30 June 2020 and 31 December 2019 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter.

Assets and liabilities on which interest is not charged are placed into the non-interest bearing category.

The tables below demonstrate the estimation of HBORS’s interest rate risk exposure as of 30 June and 31 December 2019 which may not be indicative for the positions in other periods.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **30 June 2020** | **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** |
| **Assets** |  |  |  |  |  |  |  |  |
| Cash on hand and current accounts with banks | 724,117 | - | - | - | - | 1,751,845 | 2,475,962 | 724,117 |
| Deposits with other banks | 131,516 |  | - | - | - | 378 | 131,894 | 131,516 |
| Loans to financial institutions | 159,181 | 642,241 | 1,130,675 | 2,476,022 | 4,691,065 | 8,497 | 9,107,681 | 8,904,801 |
| Loans to other customers | 1,767,770 | 462,648 | 1,064,032 | 2,121,475 | 7,358,062 | 199,724 | 12,973,711 | 12,096,868 |
| Financial assets at fair value through profit or loss | - | - | - | - | 2,064 | 180,993 | 183,057 | 2,064 |
| Financial assets at fair value through other comprehensive income | 2,251,549 | - | - | - | - | 37,178 | 2,288,727 | 2,251,549 |
| Other assets | - | - | - | - | - | 30,772 | 30,772 | - |
| **Total assets** | **5,034,133** | **1,104,889** | **2,194,707** | **4,597,497** | **12,051,191** | **2,209,387** | **27,191,804** | **24,110,915** |
|  |  |  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |  |  |
| Deposits from customers | - | - | - | - | - | 370,550 | 370,550 | - |
| Borrowings | 244,810 | 273,396 | 1,808,240 | 4,259,978 | 9,516,161 | 44,996 | 16,147,581 | 15,966,756 |
| Debt securities issued | - | - | - | - | - | - | - | - |
| Provisions for guarantees, commitments and other liabilities | - | - | - | - | - | 151,031 | 151,031 | - |
| Other liabilities | - | - | - | - | - | 341,957 | 341,957 | - |
| **Total liabilities** | **244,810** | **273,396** | **1,808,240** | **4,259,978** | **9,516,161** | **908,534** | **17,011,119** | **15,966,756** |
| **Interest rate gap** | **4,789,323** | **831,493** | **386,467** | **337,519** | **2,535,030** | **1,300,853** | **10,180,685** | **8,144,159** |

1. **Risk management (continued)**

**25.5. Market risk (continued)**

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **31 December 2019** | **Up to 1 month** | **1 to 3 months** | **3 months to 1 year** | **1 to 3 years** | **Over 3 years** | **Non-interest bearing** | **Total** | **Fixed interest rate** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Assets** |  |  |  |  |  |  |  |  |
| Cash on hand and current accounts with banks | 648,001 | - | - | - | - | 233,486 | 881,487 | 648,001 |
| Deposits with other banks | 33,184 | 520,032 | - | - | - | 254 | 553,470 | 553,216 |
| Loans to financial institutions | 146,639 | 536,191 | 1,224,864 | 2,563,039 | 4,971,304 | 5,669 | 9,447,706 | 9,221,266 |
| Loans to other customers | 1,769,376 | 322,630 | 2,158,440 | 2,012,521 | 7,323,188 | 113,479 | 13,699,634 | 12,908,055 |
| Financial assets at fair value through profit or loss | - | - | - | - | 2,234 | 191,760 | 193,994 | 2,234 |
| Financial assets at fair value through other comprehensive income | 1,501,265 | - | - | - | - | 37,376 | 1,538,641 | 1,501,265 |
| Other assets | - | - | - | - | - | 23,922 | 23,922 | - |
| **Total assets** | **4,098,465** | **1,378,853** | **3,383,304** | **4,575,560** | **12,296,726** | **605,946** | **26,338,854** | **24,834,037** |
|  |  |  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |  |  |
| Deposits from customers | - | - | - | - | - | 176,769 | 176,769 | - |
| Borrowings | 353,615 | 269,056 | 1,730,226 | 4,100,607 | 7,900,450 | 46,499 | 14,400,453 | 14,210,316 |
| Debt securities issued | - | - | 1,114,916 | - | - | 43,375 | 1,158,291 | 1,114,916 |
| Provisions for guarantees, commitments and other liabilities | - | - | - | - | - | 120,631 | 120,631 | - |
| Other liabilities | - | - | - | - | - | 323,247 | 323,247 | - |
| **Total liabilities** | **353,615** | **269,056** | **2,845,142** | **4,100,607** | **7,900,450** | **710,521** | **16,179,391** | **15,325,232** |
| **Interest rate gap** | **3,744,850** | **1,109,797** | **538,162** | **474,953** | **4,396,276** | **(104,575)** | **10,159,463** | **9,508,805** |

1. **Risk management (continued)**

**25.5. Market risk (continued)**

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

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Bank** | |
|  | **30 June**  **2020** | **31 December 2019** | **30 June**  **2020** | **31 December 2019** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Assets** |  |  |  |  |
|  |  |  |  |  |
| Fixed interest rate assets | 24,164,104 | 24,877,104 | 24,110,915 | 24,834,037 |
| Variable interest rate assets | 871,502 | 898,871 | 871,502 | 898,871 |
| Non-interest bearing | 2,215,620 | 622,157 | 2,209,387 | 605,946 |
| **Total** | **27,251,226** | **26,398,132** | **27,191,804** | **26,338,854** |
|  |  |  |  |  |
| **Liabilities** |  |  |  |  |
|  |  |  |  |  |
| Fixed interest rate liabilities | 15,966,756 | 15,325,232 | 15,966,756 | 15,325,232 |
| Variable interest rate liabilities | 135,829 | 143,638 | 135,829 | 143,638 |
| Non-interest bearing | 924,878 | 727,160 | 908,534 | 710,521 |
| **Total liabilities** | **17,027,463** | **16,196,030** | **17,011,119** | **16,179,391** |

1. **Risk management (continued)**

**25.5. Market risk (continued)**

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

**Sensitivity analysis**

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

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

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

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Currency** | **Increase in b. p. Jun 30, 2020** | **Effect on profit**  **Jun 30, 2020** | **Increase in b. p.**  **Dec 31, 2019** | **Effect on profit**  **Dec 31, 2019** |
|  |  | **HRK '000** |  | **HRK '000** |
|  |  |  |  |  |
| EUR | +25 | 1,508 | +6 | 295 |
| USD | +17 | 232 | +17 | 468 |
|  |  |  |  |  |
| **Currency** | **Decrease in b. p.**  **Jun 30, 2020** | **Effect on profit**  **Jun 30, 2020** | **Decrease in b. p. Dec 31, 2019** | **Effect on profit**  **Dec 31, 2019** |
|  |  | **HRK '000** |  | **HRK '000** |
|  |  |  |  |  |
| EUR | -25 | (1,508) | -6 | (295) |
| USD | -17 | (232) | -17 | (468) |

1. **Risk management (continued)**

**25.5. Market risk (continued)**

**25.5.2. Currency risk**

Total assets and total liabilities as of 30 June 2020 and 31 December 2019 in HRK and foreign currencies can be shown as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Group**  **30 June 2020** | **USD** | **EUR** | **Other foreign currencies** | **Total foreign currencies** | **HRK** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Assets** |  |  |  |  |  |  |
| Cash on hand and current accounts with banks | 19,771 | 705,458 | 133 | 725,362 | 1,765,456 | 2,490,818 |
| Deposits with other banks | - | 131,894 | - | 131,894 | - | 131,894 |
| Loans to financial institutions | - | 4,447,167 | - | 4,447,167 | 4,660,514 | 9,107,681 |
| Loans to other customers | 354,056 | 9,029,465 | - | 9,383,521 | 3,590,190 | 12,973,711 |
| Financial assets at fair value through profit or loss | - | 52,863 | - | 52,863 | 130,194 | 183,057 |
| Financial assets at fair value through other comprehensive income | - | 974,449 | - | 974,449 | 1,353,022 | 2,327,471 |
| Property, plant and equipment and intangible assets | - | - | - | - | 48,630 | 48,630 |
| Foreclosed assets | - | - | - | - | 23,606 | 23,606 |
| Other assets | - | 3,846 | - | 3,846 | 32,748 | 36,594 |
| **Total assets** | **373,827** | **15,345,142** | **133** | **15,719,102** | **11,604,360** | **27,323,462** |
|  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |
| Deposits from customers | 17,135 | 27,018 | 43 | 44,196 | 326,354 | 370,550 |
| Borrowings | 359,264 | 15,788,317 | - | 16,147,581 | - | 16,147,581 |
| Debt securities issued | - | - | - | - | - | - |
| Provisions for guarantees, commitments and other liabilities | 10,553 | 5,163 | 982 | 16,698 | 134,446 | 151,144 |
| Other liabilities | 203 | 10,567 | 53 | 10,823 | 347,365 | 358,188 |
| **Total liabilities** | 387,155 | 15,831,065 | 1,078 | 16,219,298 | 808,165 | 17,027,463 |
| **Currency gap** | **(13,328)** | **(485,923)** | **(945)** | **(500,196)** | **10,796,195** | **10,295,999** |

*\*Amounts linked to a one-way currency clause represent HRK 40,006 thousand.*

1. **Risk management (continued)**

**25.5. Market risk (continued)**

**25.5.2. Currency risk (continued)**

Total assets and total liabilities as of 30 June 2020 and 31 December 2019 in HRK and foreign currencies can be shown as follows:

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

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

1. **Risk management (continued)**

**25.5. Market risk (continued)**

**25.5.2. Currency risk (continued)**

Total assets and total liabilities as of 30 June 2020 and 31 December 2019 in HRK and foreign currencies can be shown as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Bank**  **30 June 2020** | **USD** | **EUR** | **Other**  **foreign currencies** | **Total**  **foreign currencies** | **HRK** | **Total** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Assets** |  |  |  |  |  |  |
| Cash on hand and current accounts with banks | 19,771 | 704,682 | 133 | 724,586 | 1,751,376 | 2,475,962 |
| Deposits with other banks | - | 131,894 | - | 131,894 | - | 131,894 |
| Loans to financial institutions | - | 4,447,167 | - | 4,447,167 | 4,660,514 | 9,107,681 |
| Loans to other customers | 354,056 | 9,029,465 | - | 9,383,521 | 3,590,190 | 12,973,711 |
| Financial assets at fair value through profit or loss | - | 52,863 | - | 52,863 | 130,194 | 183,057 |
| Financial assets at fair value through other comprehensive income | - | 964,098 | - | 964,098 | 1,324,629 | 2,288,727 |
| Investments in subsidiaries | - | - | - | - | 36,124 | 36,124 |
| Property, plant and equipment and intangible assets | - | - | - | - | 47,498 | 47,498 |
| Foreclosed assets | - | - | - | - | 23,606 | 23,606 |
| Other assets | - | 112 | - | 112 | 30,660 | 30,772 |
| **Total assets** | **373,827** | **15,330,281** | **133** | **15,704,241** | **11,594,791** | **27,299,032** |
|  |  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |  |
| Deposits from customers | 17,135 | 27,018 | 43 | 44,196 | 326,354 | 370,550 |
| Borrowings | 359,264 | 15,788,317 | - | 16,147,581 | - | 16,147,581 |
| Debt securities issued | - | - | - | - | - | - |
| Provisions for guarantees, commitments and other liabilities | 10,553 | 5,163 | 982 | 16,698 | 134,333 | 151,031 |
| Other liabilities | 42 | 2,181 | - | 2,223 | 339,734 | 341,957 |
| **Total liabilities** | **386,994** | **15,822,679** | **1,025** | **16,210,698** | **800,421** | **17,011,119** |
| **Currency gap** | **(13,167)** | **(492,398)** | **(892)** | **(506,457)** | **10,794,370** | **10,287,913** |

*\* Amounts linked to a one-way currency clause represent HRK 40,006 thousand.*

1. **Risk management (continued)**

**25.5. Market risk (continued)**

**25.5.2. Currency risk (continued)**

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

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

1. **Risk management (continued)**

**25.5. Market risk (continued)**

**25.5.2. Currency risk (continued)**

**Sensitivity analysis**

Sensitivity analysis of the Bank’s total assets and total liabilities to fluctuations in foreign exchange rates is carried out for those foreign currencies that represent Bank’s significant currencies as at the reporting date.

An assumption of reasonably possible fluctuations in EUR exchange rates against HRK was used in the foreign currency risk sensitivity analysis, with the other variables remaining stable, in order to assess the hypothetical effect on HBOR’s profit as of 30 June 2020.

Volatility of the exchange rate EUR/HRK, determined using the standard deviation method on the changes of the foreign exchange rate EUR/HRK, equalled 1.67% in the previous 12 months.

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Change in currency rate**  **Jun 30, 2020** | **Effect on**  **profit**  **Jun 30, 2020** | **Change in currency rate**  **Dec 31, 2019** | **Effect on**  **profit**  **Dec 31, 2019** |
|  | **%** | **HRK' 000** | **%** | **HRK' 000** |
|  |  |  |  |  |
| EUR | +1.67 | (5,329) | +1.22 | (5,333) |
|  |  |  | **-** |  |
| EUR | -1.67 | 5,374 | -1.22 | 5,428 |

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

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

Below is a breakdown of the financial assets at fair value based on IFRS 9 classification on 30 June 2020 and 31 December 2019.

|  |  |  |  |
| --- | --- | --- | --- |
| **Group** | **30 June 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 | - | - | 2,064 |
| ***Investments in investment funds:*** |  |  |  |
| Investments in investment funds at fair value through profit or loss | 180,254 | - | - |
| **Equity instruments:**  ***Listed equity instruments:***  Investments in corporate shares | - | - | - |
| ***Unlisted equity instruments:*** |  |  |  |
| Investments in corporate shares | - | - | 31 |
| Depository receipt - DR | - | - | 547 |
| Investment in financial institutions shares | - | 161 | - |
| **Total financial assets at fair value through profit or loss** | **180,254** | **161** | **2,642** |
| **Financial assets at fair value through other comprehensive income:** |  |  |  |
| **Debt instruments:** |  |  |  |
| ***Listed debt instruments:*** |  |  |  |
| Bonds of the Republic of Croatia | 1,193,436 | - | - |
| Corporate bonds | 977 | - | - |
| Treasury bills of the Ministry of Finance | 1,092,602 | - | - |
| Accrued interest | 10,442 | - | - |
| ***Unlisted debt instruments:*** |  |  |  |
| Corporate bonds | - | - | 586 |
| Convertible bonds - CB | - | - | 2,281 |
| Accrued interest | - | - | 364 |
| **Total debt instruments** | **2,297,457** | **-** | **3,231** |
| ***Unlisted equity instruments:*** |  |  |  |
| Investment in shares of foreign legal entities | - | 41 | - |
| Shares of foreign financial institutions – EIF | - | 26,742 | - |
| **Total equity instruments** | **-** | **26,783** | **-** |
| **Total financial assets at fair value through other comprehensive income** | **2,297,457** | **26,783** | **3,231** |

Treasury Bills of the Ministry of Finance of the Republic of Croatia were classified within Level 1 of the fair value hierarchy because credit institutions in the country started to list prices at Bloomberg, and quoted market price is used as the valuation technique.

Debt Instruments: Corporate Bonds were classified within Level 3 of the fair value hierarchy. The valuation technique used was the method of the discounted cash flows based on market interest rates, spread linked to internal credit-rating and internally determined spread linked to financial instrument liquidity.

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

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

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

|  |  |  |  |
| --- | --- | --- | --- |
| **Group** | **31 December 2019** | | |
|  | **Level 1** | **Level 2** | **Level 3** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Financial assets at fair value through profit or loss:** |  |  |  |
| ***Loans at FVPL:*** |  |  |  |
| Mezzanine loans | - | - | 2,234 |
| ***Investments in investment funds:*** |  |  |  |
| Investments in investment funds at fair value through profit or loss | 200,868 | - | - |
| **Equity instruments:**  ***Listed equity instruments:***  Investments in corporate shares | - | - | - |
| ***Unlisted equity instruments:*** |  |  |  |
| Investments in corporate shares | - | - | 31 |
| Depository receipt - DR | - | - | 539 |
| Investment in financial institutions shares | - | 161 | - |
| **Total financial assets at fair value through profit or loss** | **200,868** | **161** | **2,804** |
| **Financial assets at fair value through other comprehensive income:** |  |  |  |
| **Debt instruments:** |  |  |  |
| ***Listed debt instruments:*** |  |  |  |
| Bonds of the Republic of Croatia | 1,122,448 | - | - |
| Corporate bonds | 1,000 | - | - |
| Treasury bills of the Ministry of Finance | 414,788 | - | - |
| Accrued interest | 11,232 | - | - |
| ***Unlisted debt instruments:*** |  |  |  |
| Corporate bonds | - | - | 573 |
| Convertible bonds - CB | - | - | 2,155 |
| Accrued interest | - | - | 369 |
| **Total debt instruments** | **1,549,468** | **-** | **3,097** |
| ***Unlisted equity instruments:*** |  |  |  |
| Investment in shares of foreign legal entities | - | 40 | - |
| Shares of foreign financial institutions – EIF | - | 26,205 | - |
| **Total equity instruments** | **-** | **26,245** | **-** |
| **Total financial assets at fair value through other comprehensive income** | **1,549,468** | **26,245** | **3,097** |

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

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

|  |  |  |  |
| --- | --- | --- | --- |
| **Bank** | **30 June 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:*** | - | - | 2,064 |
| Mezzanine loans |  |  |  |
| ***Investments in investment funds:*** | 180,254 | - | - |
| Investments in investment funds at fair value through profit or loss | - | - | - |
| **Equity instruments:**  ***Listed equity instruments:***  Investments in companies’ shares |  |  |  |
| ***Unlisted equity instruments:*** | - | - | 31 |
| Investments in companies’ shares | - | - | 547 |
| Depository receipt - DR | - | 161 | - |
| Investment in financial institutions shares | **180,254** | **161** | **2,642** |
| **Total financial assets at fair value through profit or loss** |  |  |  |
| **Financial assets at fair value through other comprehensive income:** |  |  |  |
| **Debt instruments:** |  |  |  |
| ***Listed debt instruments:*** |  |  |  |
| Bonds of the Republic of Croatia | 1,156,080 | - | - |
| Treasury bills of the Ministry of Finance | 1,092,602 | - | - |
| Accrued interest | 10,031 | - | - |
| ***Unlisted debt instruments:*** |  |  |  |
| Corporate bonds | - | - | 586 |
| Convertible bonds - CB | - | - | 2,281 |
| Accrued interest | - | - | 364 |
| **Total debt instruments** | **2,258,713** | **-** | **3,231** |
| ***Unlisted equity instruments:*** |  |  |  |
| Investment in shares of foreign legal entities – SWIFT | - | 41 | - |
| Shares of foreign financial institutions – EIF | - | 26,742 | - |
| **Total equity instruments** | **-** | **26,783** | **-** |
| **Total financial assets at fair value through other comprehensive income** | **2,258,713** | **26,783** | **3,231** |

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

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

|  |  |  |  |
| --- | --- | --- | --- |
| **Bank** | **31 December 2019** | | |
|  | **Level 1** | **Level 2** | **Level 3** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Financial assets at fair value through profit or loss:** |  |  |  |
| ***Loans at FVPL:*** |  |  |  |
| Mezzanine loans | - | - | 2,234 |
| ***Investments in investment funds:*** |  |  |  |
| Investments in investment funds at fair value through profit or loss | 191,029 | - | - |
| **Equity instruments:**  ***Listed equity instruments:***  Investments in companies’ shares |  |  |  |
| ***Unlisted equity instruments:*** |  |  |  |
| Investments in companies’ shares | - | - | 31 |
| Depository receipt - DR | - | - | 539 |
| Investment in financial institutions shares | - | 161 | - |
| **Total financial assets at fair value through profit or loss** | **191,029** | **161** | **2,804** |
| **Financial assets at fair value through other comprehensive income:** |  |  |  |
| **Debt instruments:** |  |  |  |
| ***Listed debt instruments:*** |  |  |  |
| Bonds of the Republic of Croatia | 1,083,749 | - | - |
| Treasury bills of the Ministry of Finance | 414,788 | - | - |
| Accrued interest | 10,762 | - | - |
| ***Unlisted debt instruments:*** |  |  |  |
| Corporate bonds | - | - | 573 |
| Convertible bonds - CB | - | - | 2,155 |
| Accrued interest | - | - | 369 |
| **Total debt instruments** | **1,509,299** | - | **3,097** |
| ***Unlisted equity instruments:*** |  |  |  |
| Investment in shares of foreign legal entities – SWIFT | - | 40 | - |
| Shares of foreign financial institutions – EIF | - | 26,205 | - |
| **Total equity instruments** | **-** | **26,245** | **-** |
| **Total financial assets at fair value through other comprehensive income** | **1,509,299** | **26,245** | **3,097** |

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

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

**26.1.1.** **Level 3 - fair value**

***a) Mezzanine loans***

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

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

- in the case of realisation of contractually defined performance indicators (net debt to EBITDA ratio) over the predetermined period, creditors have the option, but not the obligation, to covert a mezzanine loan to a „senior debt“,

- upon the final maturity of the mezzanine loan, creditors have the option, but not the obligation, to convert the loan into the debtor’s equity and

- the debtor has the option, but not the obligation, to prematurely repay the loan at discount.

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

On 30 June 2020, the market price of ordinary shares of the debtor that the Bank could subscribe amounted to HRK 5,425 thousand, assuming that the market price of the shares included all market expectations related to future operations of the issuer. Given that HBOR can subscribe ordinary shares not earlier than on 30 April 2030, the amount of market value is reduced to the current value by applying the appropriate discount rate. The present value of these shares in HBOR’s expected ownership amounts to HRK 2,064 thousand, which represents the fair value of the mezzanine loan on 30 June 2020.

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

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

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

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

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

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

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

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

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

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

*(ii) Sensitivity analysis of corporate bond with the stated potential effect on profit/loss as at 30 June 2019, under the assumption of a change in discount rate (yield) of 2% and 10%*

Under the assumption that the market interest rates change by 2% compared with those in effect as at 30 June 2020, the impacts would be as follows:

a) In the case of a decrease in market yield on no-risk investment (linearly interpolated/extrapolated yield on bonds of the Republic of Croatia of the same duration and the same currency as the respective bond) by 2%, the discount rate would equal 10.34%, the bond price would be 39.15%, which would result in an increase in HBOR’s generated profits of HRK 14.49 thousand.

b) In the case of an increase in market yield on no-risk investment (linearly interpolated/extrapolated yield on bonds of the Republic of Croatia of the same duration and the same currency as the corporate bond) by 2%, the discount rate would equal 14.34%, the bond price would be 37.28%, which would result in a decrease in HBOR’s generated profits of HRK 13.96 thousand.

The change in interest rates defined in the “Decision on the Management of Interest Rate Risk in the Bank Book”, which is applied when calculating standard interest rate shock, is used as the basis for the change in the market interest rate of 2% compared with the market terms and conditions in effect as at 30 June 2020. “Standard interest rate shock is a parallel positive or negative change in interest rates on a reference yield curve of 200 basis points by applying the lower limit rate of 0%, except for the cases in which negative interest rate can be achieved.”

In the case of a decrease in expected cash flows on corporate bonds of 10%, the generated profit of HBOR would decrease by HRK 58.65 thousand.

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

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

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

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

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

|  |  |  |
| --- | --- | --- |
| **Group and Bank** | **Jun 30, 2020** | **Jun 30, 2019** |
|  | **HRK ‘000** | **HRK ‘000** |
|  |  |  |
| **Balance as at 1 January** | **2,234** | **2,045** |
| Decrease in fair value through profit or loss | (170) | (353) |
| **Balance as of 30 June** | **2,064** | **1,692** |

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

|  |  |  |
| --- | --- | --- |
| **Group and Bank** | **Jun 30, 2020** | **Jun 30, 2019** |
|  | **HRK ‘000** | **HRK ‘000** |
|  |  |  |
| **Balance as at 1 January** | **3,097** | **768** |
| Increase in fair value through other comprehensive income | 58 | 27 |
| Net foreign exchange | 81 | (5) |
| Accrued interest | (5) | 33 |
| **Balance as of 30 June** | **3,231** | **823** |

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

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

**26.1.2. 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**  **30 June 2020** | **Level 1** | **Level 2** | **Level 3** | **Total fair values** | **Total carrying amount** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |
| **Assets** |  |  |  |  |  |
| Cash on hand and current accounts with banks | 2,490,818 | - | - | 2,490,818 | 2,490,818 |
| Deposits with other banks | - | 131,894 | - | 131,894 | 131,894 |
| Loans to financial institutions | - | - | 9,032,464 | 9,032,464 | 9,107,681 |
| Loans to other customers | - | - | 14,631,248 | 14,631,248 | 12,973,711 |
|  | **2,490,818** | **131,894** | **23,663,712** | **26,286,424** | **24,704,104** |
|  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |
| Deposits from customers | - | 370,550 | - | 370,550 | 370,550 |
| Borrowings | - | - | 17,151,011 | 17,151,011 | 16,147,581 |
| Debt securities issued | - | - | - | - | - |
|  | **-** | **370,550** | **17,151,011** | **17,521,561** | **16,518,131** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Group**  **31 December 2019** | **Level 1** | **Level 2** | **Level 3** | **Total fair values** | **Total carrying amount** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |
| **Assets** |  |  |  |  |  |
| Cash on hand and current accounts with banks | 884,407 | - | - | 884,407 | 884,407 |
| Deposits with other banks | - | 553,470 | - | 553,470 | 553,470 |
| Loans to financial institutions | - | - | 10,733,369 | 10,733,369 | 9,447,706 |
| Loans to other customers | - | - | 16,041,117 | 16,041,117 | 13,699,634 |
|  | **884,407** | **553,470** | **26,774,486** | **28,212,363** | **24,585,217** |
|  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |
| Deposits from customers | - | 176,769 | - | 176,769 | 176,769 |
| Borrowings | - | - | 16,315,172 | 16,315,172 | 14,400,453 |
| Debt securities issued | - | 1,141,506 | - | 1,141,506 | 1,158,291 |
|  | **-** | **1,318,275** | **16,315,172** | **17,633,447** | **15,735,513** |

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

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

**26.1.2. Financial instruments not measured at fair value (continued)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Bank**  **30 June 2020** | **Level 1** | **Level 2** | **Level 3** | **Total fair values** | **Total carrying amount** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |
| **Assets** |  |  |  |  |  |
| Cash on hand and current accounts with banks | 2,475,962 | - | - | 2,475,962 | 2,475,962 |
| Deposits with other banks | - | 131,894 | - | 131,894 | 131,894 |
| Loans to financial institutions | - | - | 9,032,464 | 9,032,464 | 9,107,681 |
| Loans to other customers | - | - | 14,631,248 | 14,631,248 | 12,973,711 |
|  | **2,475,962** | **131,894** | **23,663,712** | **26,271,568** | **24,689,248** |
|  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |
| Deposits from customers | - | 370,550 | - | 370,550 | 370,550 |
| Borrowings | - | - | 17,151,011 | 17,151,011 | 16,147,581 |
| Debt securities issued | - | - | - | - | - |
|  | **-** | **370,550** | **17,151,011** | **17,521,561** | **16,518,131** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Bank**  **31 December 2019** | **Level 1** | **Level 2** | **Level 3** | **Total fair values** | **Total carrying amount** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |  |
| **Assets** |  |  |  |  |  |
| Cash on hand and current accounts with banks | 881,487 | - | - | 881,487 | 881,487 |
| Deposits with other banks | - | 553,470 | - | 553,470 | 553,470 |
| Loans to financial institutions | - | - | 10,733,369 | 10,733,369 | 9,447,706 |
| Loans to other customers | - | - | 16,041,117 | 16,041,117 | 13,699,634 |
|  | **881,487** | **553,470** | **26,774,486** | **28,209,443** | **24,582,297** |
|  |  |  |  |  |  |
| **Liabilities** |  |  |  |  |  |
| Deposits from customers | - | 176,769 | - | 176,769 | 176,769 |
| Borrowings | - | - | 16,315,172 | 16,315,172 | 14,400,453 |
| Debt securities issued | - | 1,141,506 | - | 1,141,506 | 1,158,291 |
|  | **-** | **1,318,275** | **16,315,172** | **17,633,447** | **15,735,513** |

**27. Reporting by segments**

General information on segments is given in relation to business segments of the Group.

Since the Group does not allocate administrative costs and interest by segments, the profitability of segments is not presented.

Assets and liabilities by segments are presented in net terms, i.e. gross after impairment and provisioning, and before the effect of mitigation through collateral received.

Business operations of segments are divided in terms of organisation and management. Each segment as a whole provides various products and services and operates in various markets.

**Business segments:**

The Group has following business segments:

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

**27. Reporting by segments**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **30 June 2020** | **Banking activities** | **Insurance activities** | **Other activities** | **Unallocated** | **Total** |
|  | **HRK '000** | **HRK '000** | **HRK '000** | **HRK '000** | **HRK '000** |
|  |  |  |  |  |  |
| Net interest income | 177,209 | 558 | - | - | 177,767 |
| Net fee income | 10,122 | 575 | 865 |  | 11,562 |
| Net income/(expenses) from financial operations | (11,218) | (8) | - | - | (11,226) |
| Net premiums earned | - | 3,480 | - | - | 3,480 |
| Other income | 3,757 | 15 | 131 | (136) | 3,767 |
| **Income from operating activities** | **179,870** | **4,620** | **996** | **(136)** | **185,350** |
|  |  |  |  |  |  |
| Operating costs | (70,456) | (2,856) | (767) | 136 | (73,943) |
| Impairment loss and provisions | (93,425) | 133 | (75) | - | (93,367) |
| Expenses for insured cases | - | (183) | - | - | (183) |
| Net change in provisions | - | (69) | - | - | (69) |
| Other expenses | - | (136) | - | - | (136) |
| **Operating expenses** | **(163,881)** | **(3,111)** | **(842)** | **136** | **(167,698)** |
|  |  |  |  |  |  |
| **Profit before income tax** | 15,989 | 1,509 | 154 | - | 17,652 |
| Income tax | - | (229) | - | - | (229) |
| **Profit for the period** | **15,989** | **1,280** | **154** | **-** | **17,423** |
|  |  |  |  |  |  |
| Assets of segment | 27,299,032 | 59,037 | 2,044 | (36,651) | 27,323,462 |
| **Total assets** | **27,299,032** | **59,037** | **2,044** | **(36,651)** | **27,323,462** |
|  |  |  |  |  |  |
| Liabilities of segment | 17,011,119 | 16,279 | 91 | (26) | 17,027,463 |
| Total equity | 10,287,913 | 5,258 | 1,654 | 1,174 | 10,295,999 |
| **Total liabilities and total equity** | **27,299,032** | **21,537** | **1,745** | **1,148** | **27,323,462** |

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.

**27. Reporting by segments (continued)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **30 June 2019** | **Banking activities** | **Insurance activities** | **Other activities** | **Unallocated** | **Total** |
|  | **HRK '000** | **HRK '000** | **HRK '000** | **HRK '000** | **HRK '000** |
|  |  |  |  |  |  |
| Net interest income | 160,817 | 658 | - |  | 161,475 |
| Net fee income | 11,206 | 544 | 864 | - | 12,614 |
| Net income/(expenses) from financial operations | 9,758 | 161 | 8 | - | 9,927 |
| Net premiums earned | - | 2,887 | - | - | 2,887 |
| Other income | 4,221 | 38 | 140 | (146) | 4,253 |
| **Income from operating activities** | **186,002** | **4,288** | **1,012** | **(146)** | **191,156** |
|  |  |  |  |  |  |
| Operating costs | (78,393) | (2,872) | (706) | 146 | (81,825) |
| Impairment loss and provisions | (30,550) | 369 | (67) | - | (30,248) |
| Expenses for insured cases | - | (423) | - |  | (423) |
| Net change in provisions | - | (914) | - | - | (914) |
| Other expenses | - | (113) | - | - | (113) |
| **Operating expenses** | **(108,943)** | **(3,953)** | **(773)** | **146** | **(113,523)** |
|  |  |  |  |  |  |
| **Profit before income tax** | 77,059 | 335 | 239 | - | 77,633 |
| Income tax | - | (103) | - | - | (103) |
| **Profit for the period** | **77,059** | **232** | **239** | **-** | **77,530** |
|  |  |  |  |  |  |
| **31 December 2019** |  |  |  |  |  |
| Assets of segment | 26,446,485 | 58,967 | 1,811 | (36,652) | 26,470,611 |
| **Total assets** | **26,446,485** | **58,967** | **1,811** | **(36,652)** | **26,470,611** |
|  |  |  |  |  |  |
| Liabilities of segment | 16,179,391 | 16,504 | 161 | (26) | 16,196,030 |
| Total equity | 10,267,094 | 4,963 | 1,350 | 1,174 | 10,274,581 |
| **Total liabilities and total equity** | **26,446,485** | **21,467** | **1,511** | **1,148** | **26,470,611** |

Intra-group transactions are presented under "Unallocated”.

**28. Capital management**

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

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

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

Regulatory capital is comprised of core capital minus debit items.

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

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

The Group calculates regulatory capital and capital requirements in accordance with Basel II requirements, and below is a breakdown of capital adequacy ratio as at 30 June 2020 and 31 December 2019.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Group** |  | **Bank** |
|  | **30 June**  **2020** | **31 December 2019** | **30 June**  **2020** | **31 December 2019** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
|  |  |  |  |  |
| **Total regulatory capital** | **10,029,944** | **10,023,220** | **10,028,769** | **10,024,106** |
| Credit risk weighted exposure amount | 15,456,507 | 14,931,756 | 15,448,849 | 14,914,038 |
| Credit requirements for operating risk | 848,015 | 848,015 | 827,833 | 827,833 |
| Capital requirements for currency risk | 328,399 | 429,307 | 314,246 | 429,307 |
| **Total capital requirements** | **16,632,921** | **16,209,078** | **16,590,928** | **16,171,178** |
|  | **%** | **%** | **%** | **%** |
| **Capital adequacy ratio** | **60.30** | **61.84** | **60.45** | **61.99** |
|  |  |  |  |  |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Own funds needed for ensuring capital adequacy according to regulatory requirements** | **1,995,951** | **1,945,089** | **1,990,911** | **1,940,541** |

Minimum capital adequacy ratio as of the reporting date, i.e 30 June 2020 was 12% (31 December 2019: 12%).

**29. Subsequent events**

**29.1. Reconstruction of office building after earthquake**

The office building located at Strossmayerov trg 9 in Zagreb is currently not in use due to the consequences of the earthquake, and the project preparation has been contracted for building structure reconstruction.

The preparation of the project is ongoing and will include a project estimate of the costs of repairing the structure and input data for the preparation of the project task for the procurement of the main project for the reconstruction of the building at Strossmayerov trg 9, which will include architectural project and project prepared by other professions. After the main project for the reconstruction of the building has been prepared, an estimate of the costs of performing all designed works will be known.

**29.2. Moratorium**

After the reporting period, the process of collecting the consent of clients to accept the possibility of extending the moratorium has been ongoing, and, by 31 August 2020, the possibility of extending the moratorium was accepted by 572 clients to whom the loan was approved directly for the total principal amount of HRK 7,392,789 thousand. This figure is expected to be higher after obtaining all consents.

|  |  |  |
| --- | --- | --- |
|  | **Jun 30, 2020** | **Jun 30, 2019** |
|  | **HRK ‘000** | **HRK ‘000** |
|  |  |  |
| **Premium earned** |  |  |
| Gross premium written | 6,021 | 5,214 |
| Premium impairment allowance originated and reserved on collection | (31) | (28) |
| Gross outward reinsurance premium | (2,660) | (2,262) |
| **Net premium written** | **3,330** | **2,924** |
|  |  |  |
| Changes in the gross unearned premium reserve | 176 | 105 |
| Changes in the gross unearned premium reserve, reinsurer's share | (26) | (142) |
| **Net premium earned** | **3,480** | **2,887** |
|  |  |  |
| Fee and commission income | 1,440 | 1,408 |
| Net investment income | 487 | 849 |
| Other operating income | 10 | 33 |
| **Net income** | **5,417** | **5,177** |
|  |  |  |
| Gross expense for returned premiums | (267) | (210) |
| Reinsurer's share | 131 | 98 |
| Gross reserve for returned premiums | (81) | (229) |
| Reinsurer's share | 40 | 103 |
| **Net expense and reserve for returned premiums** | **(177**) | **(238)** |
|  |  |  |
| Claims incurred | (198) | (603) |
| Claims incurred, reinsurer's share | 15 | 179 |
| Change in the claims provision | (243) | (527) |
| Change in the claims provision, reinsurer's share | 215 | (261) |
| **Net claims incurred** | **(211)** | **(1,212)** |
|  |  |  |
| Marketing and provision expenses | (260) | (435) |
| Administrative expenses | (3,154) | (2,888) |
| Other operating expenses | (15) | 192 |
| Net exchange differences other than those on financial instruments | 63 | (22) |
| **Profit before income tax** | **1,663** | **574** |
|  |  |  |
| Income tax | (229) | (103) |
|  |  |  |
| **Profit for the period** | **1,434** | **471** |
|  |  |  |
| **Other comprehensive income** |  |  |
| **Items that are not transferred subsequently to profit or loss:** |  |  |
| Deferred tax – adjustment for previous period | - | - |
| **Total items that are not transferred subsequently to profit or loss** | **-** | **-** |
|  |  |  |
| **Items that may be reclassified subsequently to profit or loss:** |  |  |
| Gains on revaluation of financial assets available for sale | 1,069 | 1,515 |
| Decrease in the fair value of financial assets available for sale | (1,834) | (409) |
| Transfer of realized gains on asset available for sale to profit or loss | (253) | - |
| Deferred tax | 183 | (237) |
| **Total items that may be reclassified subsequently to profit or loss:** | **(835)** | **869** |
|  |  |  |
| **Other comprehensive income after income tax** | **(835)** | **869** |
|  |  |  |
| **Total comprehensive income after income tax** | **599** | **1,340** |
|  |  |  |
| **Attributable to:** |  |  |
| Equity holder of the parent | **599** | **1,340** |

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.

|  |  |  |
| --- | --- | --- |
|  | **Jun 30, 2020** | **Dec 31, 2019** |
|  | **HRK ‘000** | **HRK ‘000** |
|  |  |  |
| **Assets** |  |  |
| **Non-current assets** |  |  |
| Property and equipment | 872 | 839 |
| Intangible assets | 259 | 134 |
| Held to maturity investments | - | 457 |
| Deferred tax | 324 | - |
| **Total non-current assets** | **1,455** | **1,430** |
|  |  |  |
| **Current assets** |  |  |
| Investments available for sale | 38,744 | 40,169 |
| Investments at fair value through profit or loss | - | 9,839 |
| Deposits with banks | - | - |
| Receivables from insurance operations | 5,026 | 5,331 |
| Other receivables | 474 | 563 |
| Cash and cash equivalents | 14,856 | 2,919 |
| **Total current assets** | **59,100** | **58,821** |
|  |  |  |
| **Total assets** | **60,555** | **60,251** |
|  |  |  |
| **Equity and liabilities** |  |  |
| **Equity** |  |  |
| Share capital | 37,500 | 37,500 |
| Retained earnings and reserves | 1,749 | 2,501 |
| Other reserves | 3,528 | 4,363 |
| Profit for the year | 1,434 | (752) |
| **Total equity** | **44,211** | **43,612** |
|  |  |  |
| **Technical provisions** |  |  |
| Gross technical provisions | 18,359 | 18,211 |
| Technical provisions, reinsurer's share | (8,392) | (8,163) |
|  | **9,967** | **10,048** |
|  |  |  |
| **Current liabilities** |  |  |
| Liabilities from insurance operations | 2,979 | 3,291 |
| Other liabilities | 3,398 | 3,300 |
| **Total liabilities** | **6,377** | **6,591** |
|  |  |  |
| **Total equity and liabilities** | **60,555** | **60,251** |

|  |  |  |
| --- | --- | --- |
|  |  |  |
|  | **Jun 30, 2020** | **Jun 30, 2019** |
|  | **HRK ‘000** | **HRK ‘000** |
|  |  |  |
| **Operating activities** |  |  |
| Profit before income tax | 1,663 | 574 |
| *Adjustments to reconcile to net cash from and used in operating activities:* |  |  |
| Depreciation | 191 | 17 |
| Impairment gain/loss and provisions | (28) | (273) |
| Income tax | - | (103) |
| Accrued interest | 69 | 4 |
| *Operating profit before working capital changes* | *1,895* | *219* |
|  |  |  |
| **Changes in operating assets and liabilities:** |  |  |
| Net decrease in deposits with other banks | - | - |
| Net realized (gain)/loss on assets available for sale | 279 | - |
| Decrease of discount in assets available for sale and assets held to maturity | 64 | 102 |
| Net gain on financial assets at fair value through profit or loss | 70 | (229) |
| Premium receivables | 274 | (183) |
| Net decrease/(increase) in other assets | 129 | (81) |
| Net decrease of assets and liabilities from insurance operations | (312) | 1,014 |
| Net increase in technical provisions | (81) | 951 |
| Net increase in other liabilities | (173) | 63 |
| **Net cash provided/(used in) operating activities** | **2,145** | **1,856** |
|  |  |  |
| **Investment activities** |  |  |
| Net purchase of financial assets at fair value through profit or loss | - | - |
| Net sale of financial assets at fair value through profit or loss | 9,747 | - |
| Net purchase of assets available for sale | (3,044) | - |
| Net sale of assets available for sale | 3,346 | - |
| Purchase of assets held to maturity | - | - |
| Collection of assets held to maturity when due | 448 | - |
| Net purchase of property, plant and equipment and intangible assets | (224) | (120) |
| **Net cash (used in)/provided investment activities** | **10,273** | **(120)** |
|  |  |  |
| **Effect of foreign currency to cash and cash equivalents** |  |  |
| Net foreign exchange | (337) | 66 |
| **Net effect** | **(337)** | **66** |
|  |  |  |
| Other adjustments | (125) | - |
|  |  |  |
| Net (decrease)/increase in cash and cash equivalents | 11,956 | 1,802 |
|  |  |  |
| Balance as of 1 January | 2,924 | 3,363 |
| Net (decrease)/increase in cash | 12,081 | 1,802 |
|  |  |  |
| **Balance as of 30 June** | **14,880** | **5,165** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Share**  **capital** | **Retained earnings and reserves** | **Other reserves** | **Profit/(loss) for the year** | **Total equity attributable to the equity holders of the Company** | **Total**  **equity** |
|  | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** | **HRK ‘000** |
| **Balance as of 1 January 2019** | **37,500** | **2,237** | **3,049** | **481** | **43,267** | **43,267** |
|  |  |  |  |  |  |  |
| Profit for the period | - | - | - | 471 | **471** | **471** |
| Other comprehensive income | - | - | 869 | - | **869** | **869** |
|  |  |  |  |  |  |  |
| Total comprehensive income | - | - | 869 | 471 | **1,340** | **1,340** |
|  |  |  |  |  |  |  |
| Transfer of profit 2018 to retained earnings | - | 481 | - | (481) | **-** | **-** |
| Other adjustments | - | (217) | - | 172 | **(45)** | **(45)** |
|  |  |  |  |  |  |  |
| **Balance as of 30 June 2019** | **37,500** | **2,501** | **3,918** | **643** | **44,562** | **44,562** |
|  |  |  |  |  |  |  |
| **Balance as of 1 January 2020** | **37,500** | **2,501** | **4,363** | **(752)** | **43,612** | **43,612** |
|  |  |  |  |  |  |  |
| Profit for the period | - | - | - | 1,434 | **1,434** | **1,434** |
| Other comprehensive income | - | - | (835) | - | **(835)** | **(835)** |
|  |  |  |  |  |  |  |
| Total comprehensive income | - | - | (835) | 1,434 | **599** | **599** |
|  |  |  |  |  |  |  |
| Transfer of profit 2019 to retained earnings | - | (752) | - | 752 | **-** | **-** |
|  |  |  |  |  |  |  |
| **Balance as of 30 June 2020** | **37,500** | **1,749** | **3,528** | **1,434** | **44,211** | **44,211** |