

# **CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT**

## **Unaudited Condensed Separate and Consolidated Interim Financial Statements for the Period 1 January – 31 March 2022**

Zagreb, May 2022

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

## Contents

---

	Page
Responsibilities of the Management and Supervisory Boards for the preparation and approval of the condensed separate and consolidated interim financial statements	3
Condensed Consolidated Interim Financial Statements of the Group:	4
Statement of Profit or Loss	4
Statement of Profit or Loss and Other Comprehensive Income	5
Statement of Financial Position	6
Statement of Cash Flows	7
Statement of Changes in Equity	8
Condensed Separate Interim Financial Statements of the Bank:	9
Statement of Profit or Loss	9
Statement of Profit or Loss and Other Comprehensive Income	10
Statement of Financial Position	11
Statement of Cash Flows	12
Statement of Changes in Equity	13
Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations	14- 121
Appendix - Financial Performance of the HKO Group	122 - 125

## Responsibilities of the Management and Supervisory Boards for the preparation and approval of the condensed separate and consolidated interim financial statements for the period 1 January – 31 March 2022

---

We confirm that, to the best of our knowledge, the condensed separate interim financial statements of the Croatian Bank for Reconstruction and Development (“the Bank” or “HBOR”) and condensed consolidated interim financial statements of the Croatian Bank for Reconstruction and Development Group (“the Group”) set out on pages 4 to 125 have been prepared in accordance with International Accounting Standard 34: “Interim Financial Reporting” applicable for the preparation of interim financial statements, and give a true and fair view of assets, liabilities, financial position, financial performance and cash flows for the reporting period.

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

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

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

The Condensed separate and consolidated interim financial statements on pages 4 to 125 have been approved by the Management Board on 27 May 2022 as confirmed by the signatures below.

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



---

Vedran Jakšić, MSc

**Senior Executive Director**



---

Marin Pranjić

**Accounting Division Executive Director**



---

Tamara Perko, MSc

**President of the Management Board**



---

Hrvoje Čuvalo, MSc

**Member of the Management Board**

Zagreb, 27 May 2022

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

(All amounts are expressed in HRK thousand)

	Notes	2022 HRK '000	2021 HRK '000
Interest income calculated using the effective interest method	5	185,339	170,106
Interest expense	6	(40,234)	(49,781)
<b>Net interest income</b>		<b>145,105</b>	<b>120,325</b>
Fee and commission income		6,749	7,963
Fee and commission expense		(1,231)	(3,004)
<b>Net fee and commission income</b>		<b>5,518</b>	<b>4,959</b>
Net gains/(losses) on financial operations		4,287	(5,279)
Other income		6,615	6,198
		<b>161,525</b>	<b>126,203</b>
Employee expenses	7 a)	(25,557)	(23,968)
Depreciation and amortization	7 b)	(2,912)	(2,555)
Other expenses	7 c)	(33,306)	(20,712)
Impairment gain/loss and provisions	8	130,350	9,597
<b>Profit before income tax</b>		<b>230,100</b>	<b>88,565</b>
Income tax		-	-
<b>Profit for the period</b>		<b>230,100</b>	<b>88,565</b>
<b>Attributable to:</b>			
<b>Owner of the Bank</b>		<b>230,100</b>	<b>88,565</b>

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

Condensed Consolidated Interim Financial Statements of the Group  
Statement of Profit or Loss and Other Comprehensive Income  
for the period 1 January – 31 March

(All amounts are expressed in HRK thousand)

	2022	2021
	HRK '000	HRK '000
<b>Profit for the period</b>	<b>230,100</b>	<b>88,565</b>
<b>Other comprehensive income</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Net changes in financial assets at fair value through other comprehensive income	(29,717)	(6,196)
Net foreign exchange on equity instruments	340	116
Deferred tax – other comprehensive income	684	96
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>(28,693)</b>	<b>(5,984)</b>
<b>Other comprehensive income after income tax</b>	<b>(28,693)</b>	<b>(5,984)</b>
<b>Total comprehensive income after income tax</b>	<b>201,407</b>	<b>82,581</b>
<b>Attributable to:</b>		
<b>Owner of the Bank</b>	<b>201,407</b>	<b>82,581</b>

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

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

(All amounts are expressed in HRK thousand)

	Notes	Mar 31, 2022 HRK '000	Dec 31, 2021 HRK '000
<b>Assets</b>			
Cash on hand and current accounts with banks	9	1,577,568	1,961,986
Deposits with other banks	10	15,215	7,500
Loans to financial institutions	11	6,941,960	7,050,143
Loans to other customers	12	15,726,433	15,964,376
Financial assets at fair value through profit or loss	13	129,544	218,984
Financial assets at fair value through other comprehensive income	14	3,249,003	2,972,530
Property, plant and equipment and intangible assets		43,623	43,937
Foreclosed assets	15	24,996	21,369
Other assets	16	42,999	37,537
<b>Total assets</b>		<b>27,751,341</b>	<b>28,278,362</b>
<b>Liabilities</b>			
Deposits from customers	17	607,537	960,541
Borrowings	18	15,828,623	16,115,237
Provisions for guarantees, commitments and other	19	144,905	190,560
Other liabilities	20	391,987	435,239
<b>Total liabilities</b>		<b>16,973,052</b>	<b>17,701,577</b>
<b>Equity</b>			
Founder's capital	26	7,184,632	7,184,632
Retained earnings and reserves		3,345,869	3,157,684
Other reserves		5,282	33,975
Profit for the period		230,100	188,185
Guarantee fund		12,406	12,309
<b>Total equity</b>		<b>10,778,289</b>	<b>10,576,785</b>
<b>Total liabilities and total equity</b>		<b>27,751,341</b>	<b>28,278,362</b>

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

Condensed Consolidated Interim Financial Statements of the Group  
Statement of Cash Flows  
for the period 1 January - 31 March

(All amounts are expressed in HRK thousand)

	Notes	2022 HRK '000	2021 HRK '000
<b>Operating activities</b>			
Profit before income tax		230,100	88,565
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation and amortization		2,912	2,555
Income tax		-	-
Impairment loss and provisions		(130,327)	(9,585)
Accrued interest		33,096	(1,903)
Deferred fees		(7,077)	(410)
Net loss from trading with derivative financial instruments		-	1,928
Other changes in assets at fair value		4,428	(49,879)
<i>Operating profit before working capital changes</i>		<i>133,132</i>	<i>31,271</i>
<i>Changes in operating assets and liabilities:</i>			
Net (increase) in deposits with other banks, before impairment		(7,714)	(28,881)
Net decrease in loans to financial institutions, before impairment		109,691	350,588
Net decrease/(increase) in loans to other customers, before loss impairment		294,866	(451,503)
Net (increase) in foreclosed assets		(3,627)	(14)
Net (increase) in other assets, before impairment		(7,467)	(1,998)
Net (decrease)/increase in deposits from banks and companies		(353,004)	869,530
Net (decrease) in other liabilities, before provisions		(43,265)	(18,545)
<b>Net cash provided from operating activities</b>		<b>122,612</b>	<b>750,448</b>
<b>Investment activities</b>			
Purchase of financial assets at fair value through profit or loss		(2,639)	(14,902)
Sale of financial assets at fair value through profit or loss		97,973	1,400
Purchase of financial assets at fair value through other comprehensive income		(841,746)	(475,514)
Sale of financial assets at fair value through other comprehensive income		535,036	150,000
Investments in subsidiaries -- sales and write-offs		-	21
Net purchase of property, plant and equipment and intangible assets		(2,060)	(4,036)
<b>Net cash (used in) investment activities</b>		<b>(213,436)</b>	<b>(343,031)</b>
<b>Financing activities</b>			
Increase in founder's capital		-	-
Increase in borrowings – withdrawn funds		152,693	346,432
Decrease in borrowings – repayments of principal		(559,871)	(636,069)
Other		1,950	(1,242)
<b>Net cash (used in) financing activities</b>		<b>(405,228)</b>	<b>(290,879)</b>
<b>Effect of foreign currency to cash and cash equivalents</b>			
Net foreign exchange		111,087	70,680
<b>Net effect</b>		<b>111,087</b>	<b>70,680</b>
Net (decrease)/increase in cash and cash equivalents		(384,965)	187,218
Cash and cash equivalents balance as of 1 January, before impairment		1,963,795	1,660,768
Net (decrease)/increase in cash and cash equivalents		(384,965)	187,218
<b>Cash and cash equivalents balance as of 31 March before impairment</b>	<b>9</b>	<b>1,578,830</b>	<b>1,847,986</b>
<b>Additional note - Operational cash flows</b>			
Interest paid		37,426	39,054
Interest received		159,813	119,796

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

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

(All amounts are expressed in HRK thousand)

	Founder's capital HRK '000	Retained earnings and reserves HRK '000	Other reserves HRK '000	Net profit for the period HRK '000	Guarantee fund HRK '000	Total HRK '000
<b>Balance as at 1 January 2021</b>	<b>7,134,632</b>	<b>3,076,153</b>	<b>59,108</b>	<b>81,531</b>	<b>12,341</b>	<b>10,363,765</b>
Profit for the period	-	-	-	88,565	-	88,565
Other comprehensive income	-	-	(5,984)	-	-	(5,984)
Total comprehensive income	-	-	(5,984)	88,565	-	82,581
Net foreign exchange --						
Guarantee fund	-	-	-	-	54	54
Capital paid-in from the State Budget	-	-	-	-	-	-
Transfer of profit 2020 to retained earnings	-	81,531	-	(81,531)	-	-
<b>Balance as at 31 March 2021</b>	<b>7,134,632</b>	<b>3,157,684</b>	<b>53,124</b>	<b>88,565</b>	<b>12,395</b>	<b>10,446,400</b>
<b>Balance as at 1 January 2022</b>	<b>7,184,632</b>	<b>3,157,684</b>	<b>33,975</b>	<b>188,185</b>	<b>12,309</b>	<b>10,576,785</b>
Profit for the period	-	-	-	230,100	-	230,100
Other comprehensive income	-	-	(28,693)	-	-	(28,693)
Total comprehensive income	-	-	(28,693)	230,100	-	201,407
Net foreign exchange --						
Guarantee fund	-	-	-	-	97	97
Capital paid-in from the State Budget	-	-	-	-	-	-
Transfer of profit 2021 to retained earnings	-	188,185	-	(188,185)	-	-
<b>Balance as at 31 March 2022</b>	<b>7,184,632</b>	<b>3,345,869</b>	<b>5,282</b>	<b>230,100</b>	<b>12,406</b>	<b>10,778,289</b>

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

Condensed Separate Interim Financial Statements of the Bank  
Income Statement  
for the period 1 January - 31 March  
(All amounts are expressed in HRK thousand)

	Notes	2022 HRK '000	2021 HRK '000
Interest income calculated using the effective interest method	5	185,009	169,789
Interest expense	6	(40,231)	(49,776)
<b>Net interest income</b>		<b>144,778</b>	<b>120,013</b>
Fee and commission income		5,799	7,098
Fee and commission expense		(1,231)	(3,004)
<b>Net fee and commission income</b>		<b>4,568</b>	<b>4,094</b>
Net gains/(losses) on financial operations		4,074	(5,372)
Other income		4,161	4,455
		<b>157,581</b>	<b>123,190</b>
Employee expenses	7 a)	(24,355)	(22,729)
Depreciation and amortization	7 b)	(2,818)	(2,476)
Other expenses	7 c)	(30,455)	(19,825)
Impairment gain/loss and provisions	8	130,391	9,640
<b>Profit before income tax</b>		<b>230,344</b>	<b>87,800</b>
Income tax		-	-
<b>Profit for the period</b>		<b>230,344</b>	<b>87,800</b>
<b>Attributable to:</b>			
<b>Owner of the Bank</b>		<b>230,344</b>	<b>87,800</b>

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

74

Condensed Separate Interim Financial Statements of the Bank  
Statement of Profit or Loss and Other Comprehensive Income  
for the period 1 January - 31 March

(All amounts are expressed in HRK thousand)

	2022 HRK '000	2021 HRK '000
<b>Profit for the period</b>	<b>230,344</b>	<b>87,800</b>
<b>Other comprehensive income</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Net changes in financial assets at fair value through other comprehensive income	(25,925)	(5,660)
Net foreign exchange on equity instruments	340	116
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>(25,585)</b>	<b>(5,544)</b>
<b>Other comprehensive income after income tax</b>	<b>(25,585)</b>	<b>(5,544)</b>
<b>Total comprehensive income after income tax</b>	<b>204,759</b>	<b>82,256</b>
<b>Attributable to:</b>		
<b>Owner of the Bank</b>	<b>204,759</b>	<b>82,256</b>

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

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

(All amounts are expressed in HRK thousand)

	Notes	Mar 31, 2022 HRK '000	Dec 31, 2021 HRK '000
<b>Assets</b>			
Cash on hand and current accounts with banks	9	1,571,206	1,958,620
Deposits with other banks	10	15,215	7,500
Loans to financial institutions	11	6,941,960	7,050,143
Loans to other customers	12	15,726,433	15,964,376
Financial assets at fair value through profit or loss	13	129,544	218,984
Financial assets at fair value through other comprehensive income	14	3,195,860	2,915,704
Investments in subsidiaries		36,124	36,124
Property, plant and equipment and intangible assets		42,408	42,674
Foreclosed assets	15	24,996	21,369
Other assets	16	38,957	34,494
<b>Total assets</b>		<b>27,722,703</b>	<b>28,249,988</b>
<b>Liabilities</b>			
Deposits from customers	17	607,537	960,541
Borrowings	18	15,828,623	16,115,237
Provisions for guarantees, commitments and other liabilities	19	144,648	190,303
Other liabilities	20	369,310	416,178
<b>Total liabilities</b>		<b>16,950,118</b>	<b>17,682,259</b>
<b>Equity</b>			
Founder's capital	26	7,184,632	7,184,632
Retained earnings and reserves		3,340,827	3,153,745
Other reserves		4,376	29,961
Profit for the period		230,344	187,082
Guarantee fund		12,406	12,309
<b>Total equity</b>		<b>10,772,585</b>	<b>10,567,729</b>
<b>Total liabilities and total equity</b>		<b>27,722,703</b>	<b>28,249,988</b>

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

Condensed Separate Interim Financial Statements of the Bank  
Statement of Cash Flows  
for the period 1 January - 31 March

(All amounts are expressed in HRK thousand)

	Notes	2022 HRK '000	2021 HRK '000
<b>Operating activities</b>			
Profit before income tax		230,344	87,800
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation and amortization		2,818	2,476
Impairment loss and provisions		(130,391)	(9,640)
Accrued interest		33,009	(2,025)
Deferred fees		(7,077)	(410)
Net loss from trading with derivative financial instruments		-	1,928
Other changes in assets at fair value		4,412	(49,879)
<i>Operating profit before working capital changes</i>		<i>133,115</i>	<i>30,250</i>
<i>Changes in operating assets and liabilities:</i>			
Net (increase) in deposits with other banks, before impairment		(7,714)	(28,881)
Net decrease in loans to financial institutions, before impairment		109,691	350,588
Net decrease/(increase) in loans to other customers, before impairment		294,866	(451,503)
Net (increase) in foreclosed assets		(3,627)	(14)
Net (increase) in other assets, before impairment		(7,095)	(1,998)
Net (decrease)/increase in deposits from banks and companies		(353,004)	869,530
Net (decrease) in other liabilities, before provisions		(46,868)	(18,545)
<b>Net cash provided from operating activities</b>		<b>119,364</b>	<b>749,427</b>
<b>Investment activities</b>			
Purchase of financial assets at fair value through profit or loss income		(2,639)	(14,902)
Sale of financial assets at fair value through profit or loss		97,973	1,400
Purchase of financial assets at fair value through other comprehensive income		(841,746)	(475,514)
Sale of financial assets at fair value through other comprehensive income		535,036	150,000
Investments in subsidiaries – sales and write-offs		-	21
Net purchase of property, plant and equipment and intangible assets		(2,009)	(4,027)
<b>Net cash (used in) investment activities</b>		<b>(213,385)</b>	<b>(343,022)</b>
<b>Financing activities</b>			
Increase in founder's capital		-	-
Increase in borrowings – withdrawn funds		152,693	346,432
Decrease in borrowings – repayments of principle		(559,871)	(636,069)
Other		1,943	(462)
<b>Net cash used in financing activities</b>		<b>(405,235)</b>	<b>(290,099)</b>
<b>Effect of foreign currency to cash and cash equivalents</b>			
Net foreign exchange		111,293	70,777
<b>Net effect</b>		<b>111,293</b>	<b>70,777</b>
Net (decrease)/increase in cash and cash equivalents		(387,963)	187,083
Cash and cash equivalents balance as of 1 January, before impairment		1,960,424	1,654,805
Net (decrease)/increase in cash and cash equivalents		(387,963)	187,083
<b>Cash and cash equivalents balance as at 31 March, before impairment</b>	<b>9</b>	<b>1,572,461</b>	<b>1,841,888</b>
<b>Additional note – operating activities</b>			
Interest paid		37,426	39,054
Interest received		159,397	119,352

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

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

(All amounts are expressed in HRK thousand)

	Founder's capital HRK '000	Retained earnings and reserves HRK '000	Other reserves HRK '000	Net profit for the period HRK '000	Guarantee fund HRK '000	Total equity HRK '000
<b>Balance as at 1 January 2021</b>	<b>7,134,632</b>	<b>3,074,406</b>	<b>53,906</b>	<b>79,339</b>	<b>12,341</b>	<b>10,354,624</b>
Profit for the period	-	-	-	87,800	-	87,800
Other comprehensive income	-	-	(5,544)	-	-	(5,544)
Total comprehensive income	-	-	(5,544)	87,800	-	82,256
Net foreign exchange – Guarantee fund	-	-	-	-	54	54
Capital paid-in from the State Budget	-	-	-	-	-	-
Transfer of profit 2020 to retained earnings	-	79,339	-	(79,339)	-	-
<b>Balance as at 31 March 2021</b>	<b>7,134,632</b>	<b>3,153,745</b>	<b>48,362</b>	<b>87,800</b>	<b>12,395</b>	<b>10,436,934</b>
<b>Balance as at 1 January 2022</b>	<b>7,184,632</b>	<b>3,153,745</b>	<b>29,961</b>	<b>187,082</b>	<b>12,309</b>	<b>10,567,729</b>
Profit for the period	-	-	-	230,344	-	230,344
Other comprehensive income	-	-	(25,585)	-	-	(25,585)
Total comprehensive income	-	-	(25,585)	230,344	-	204,759
Net foreign exchange – Guarantee fund	-	-	-	-	97	97
Capital paid-in from the State Budget	-	-	-	-	-	-
Transfer of profit 2021 to retained earnings	-	187,082	-	(187,082)	-	-
<b>Balance as at 31 March 2022</b>	<b>7,184,632</b>	<b>3,340,827</b>	<b>4,376</b>	<b>230,344</b>	<b>12,406</b>	<b>10,772,585</b>

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

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022

(All amounts are expressed in HRK thousand)

---

**1. General information**

**1.1. Group:**

The Croatian Bank for Reconstruction and Development („HBOR“ or „the Bank“) is the parent company of the Croatian Bank for Reconstruction and Development Group („Group“) that operates in the Republic of Croatia. The Group primarily performs banking activities and, to the lesser extent, insurance activities and credit risk assessment activities. These Financial Statements include separate and consolidated financial statements of the Bank and the Group (“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 31 March 2022, the Group had 395 employees (31 March 2021: 377 employees).

**1.2. Bank:**

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

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

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

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

**1. General information (continued)**

**1.2. Bank (continued):**

*Supervisory Board*

As of 31 March 2022, 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  
Deputy President of the Supervisory Board,
- Nikolina Brnjac, DSc, Minister of Tourism and Sports,
- Nataša Tramišak, Minister of Regional Development and EU Funds,
- Marija Vučković, MSc, Minister of Agriculture,
- Ivan Paladina, Minister of Physical Planning, Construction and State Assets,
- Luka Buriilović, DSc, Chairman of the Croatian Chamber of Economy – ex officio Member of  
the Supervisory Board,
- Žarko Tušek, member of Parliament,
- Predrag Štromar, member of Parliament,
- Siniša Hajdaš Dončić, DSc, member of Parliament.

The Government of the Republic of Croatia, at its meeting held on 6 May 2022, adopted the Decision on the Appointment of Davor Filipović, DSc, Minister of the Economy and Sustainable Development as ex officio Deputy President of the Supervisory Board of the Croatian Bank for Reconstruction and Development as well as the Decision on the Dismissal of Tomislav Ćorić, DSc, from the Position of ex officio Deputy President of the Supervisory Board of the Croatian Bank for Reconstruction and Development.

*Management Board*

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

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

As of 31 March 2022, HBOR had 374 employees (31 March 2021: 356 employees).

*Audit Committee*

As of 31 March 2022, members of the Audit Committee were as follows:

- Prof. DSc. Lajoš Žager, Faculty of Economics and Business of the University of Zagreb, Chairman  
of the Audit Committee,
- Predrag Štromar, Chairman of the Physical Planning and Construction Committee of the  
Croatian Parliament, member of the Audit Committee.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

**1. General information (continued)**

**1.2. Bank (continued):**

**1.2.1. Activities of the Bank:**

The principal activities of the Bank comprise the following:

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

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

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

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

**1. General information (continued)**

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

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

- 8. Impairment loss and provisions;
- 23.3. Credit risk;
- 23.3.3. Analysis of input for ECL model within the framework of impact of macroeconomic conditions on PD;
- 23.3.2.5. Significant increase in credit risk and
- 23.4. Liquidity risk.

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

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

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

**2.1. Statement of compliance**

The Condensed Interim Financial Statements of the Bank and HBOR Group for the period 1 January to 31 March 2022 have been prepared in accordance with the International Accounting Standard 34 Interim Financial Reporting.

The Condensed Interim Financial Statements for the period from 1 January to 31 March 2022 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 2021.

**2.2. Measurement**

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

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

**2.3. Functional and presentation currency**

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

**3. Use of judgements and estimates**

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

**4. Summary of significant accounting policies**

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

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

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

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

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

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

- IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 (amendment - Disclosure of Accounting Policies) (effective for annual periods beginning on or after 1 January 2023);
- IAS 8 Accounting Policies – Changes in Accounting Estimates and Errors (amendment – Definition of Accounting Estimates) (effective for annual periods beginning on or after 1 January 2023).

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

**5. Summary of significant accounting policies (continued)**

**4.1. Adoption of new and amended International Financial Reporting Standards ("IFRS") and Interpretations (continued)**

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

IFRS currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards and amendments to existing standards, the adoption of which the European Union on 31 March 2022 has not yet decided (the effective dates set out below refer to IFRSs issued by the IASB):

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

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

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

- IAS 1 Presentation of Financial Statements (amendment - Classification of Liabilities as Current or Non-current);
- IAS 12 Income Taxes (amendment – Deferred tax related to assets and liabilities arising from a single transaction).

The above changes are effective for annual periods beginning on or after 1 January 2023.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

5. Interest income calculated using the effective interest method

Interest income by borrowers:

	Group		Bank	
	Jan 1 - Mar 31, 2022 HRK '000	Jan 1 - Mar 31, 2021 HRK '000	Jan 1 - Mar 31, 2022 HRK '000	Jan 1 - Mar 31, 2021 HRK '000
Public sector	35,562	33,831	35,232	33,514
State-owned companies	6,249	9,779	6,249	9,779
Foreign companies	7,216	7,800	7,216	7,800
Domestic companies	94,709	77,024	94,709	77,024
Domestic financial institutions	20,824	28,990	20,824	28,990
Foreign financial institutions	211	662	211	662
Penalty interest	16,478	6,448	16,478	6,448
Other	4,090	5,572	4,090	5,572
	<b>185,339</b>	<b>170,106</b>	<b>185,009</b>	<b>169,789</b>

Interest income by type of facility:

	Group		Bank	
	Jan 1 - Mar 31, 2022 HRK '000	Jan 1 - Mar 31, 2021 HRK '000	Jan 1 - Mar 31, 2022 HRK '000	Jan 1 - Mar 31, 2021 HRK '000
Interest on loans				
- financial institutions	20,825	28,995	20,825	28,995
- other customers	158,109	132,503	158,109	132,503
	<b>178,934</b>	<b>161,498</b>	<b>178,934</b>	<b>161,498</b>
Investments in securities	6,194	7,946	5,864	7,629
- Bonds of the Republic of Croatia	6,090	7,666	5,768	7,357
- Corporate bonds	49	48	41	40
- Treasury bills of the Ministry of Finance	55	232	55	232
Deposits	211	662	211	662
	<b>185,339</b>	<b>170,106</b>	<b>185,009</b>	<b>169,789</b>

The main difference between interest income and interest received or collected (see Statement of Cash Flows) mostly relates to the income in respect to interest subsidies inflows that are recorded upon payment. The discounted amount of the interest subsidies provided for the final user is presented as deferred interest income and is recognized in profit or loss on a time basis during the repayment of the loan. Interest income earned on this basis for the period 1 January to 31 March 2022 amounts to HRK 12,846 thousand (1 January to 31 March 2021: HRK 10,542 thousand).

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**6. Interest expense**

Interest expense by type of payee:

	<b>Group</b>		<b>Bank</b>	
	<b>Jan 1 - Mar 31, 2022 HRK '000</b>	<b>Jan 1 - Mar 31, 2021 HRK '000</b>	<b>Jan 1 - Mar 31, 2022 HRK '000</b>	<b>Jan 1 - Mar 31, 2021 HRK '000</b>
Domestic financial institutions	1	6	1	6
Foreign financial institutions	36,832	46,375	36,832	46,375
State units	3,394	3,375	3,394	3,375
Other	7	25	4	20
	<b>40,234</b>	<b>49,781</b>	<b>40,231</b>	<b>49,776</b>

Interest expense by type of facility:

	<b>Group</b>		<b>Bank</b>	
	<b>Jan 1 - Mar 31, 2022 HRK '000</b>	<b>Jan 1 - Mar 31, 2021 HRK '000</b>	<b>Jan 1 - Mar 31, 2022 HRK '000</b>	<b>Jan 1 - Mar 31, 2021 HRK '000</b>
Borrowings	40,161	49,610	40,161	49,610
Deposits	47	146	47	146
Leases – interest expenses on long term contracts	7	25	4	20
Other	19	-	19	-
	<b>40,234</b>	<b>49,781</b>	<b>40,231</b>	<b>49,776</b>

The difference between interest expense and interest paid (see the Statement of Cash Flows) mostly relates to the changes in the amount of the interest accrued in relation to the prior period.

6

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

7. Operating expenses

Operating expenses can be shown as follows:

	Group		Bank	
	Jan 1 - Mar 31, 2022	Jan 1 - Mar 31, 2021	Jan 1 - Mar 31, 2022	Jan 1 - Mar 31, 2021
	HRK '000	HRK '000	HRK '000	HRK '000
7 a) Employee expenses	25,557	23,968	24,355	22,729
7 b) Depreciation	2,912	2,555	2,818	2,476
7 c) Other expenses	33,306	20,712	30,455	19,825
Of which:				
<i>Administration expenses</i>	4,946	3,300	4,867	3,231
<i>Material and services</i>	7,593	6,619	7,172	6,204
<i>Other expenses</i>	20,767	10,793	18,416	10,390
	<b>61,775</b>	<b>47,235</b>	<b>57,628</b>	<b>45,030</b>

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

	Group		Bank	
	Jan 1 - Mar 31, 2022	Jan 1 - Mar 31, 2021	Jan 1 - Mar 31, 2022	Jan 1 - Mar 31, 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Change in the claims provision	2,171	122	-	-
Change in the claims provision, reinsurer's share	(295)	(20)	-	-
<b>Expenses of insurance operations</b>	<b>1,876</b>	<b>102</b>	<b>-</b>	<b>-</b>

Loss provisions as at 31 March 2022 consisted of reported and unreported losses in the approximate proportion 55:45. At the end of Q1 2022, total reserves exceeded those at the end of 2021 by 20.0%. The Bornhuetter-Ferguson method was used for gross provisions for unreported losses, and for reported losses, the amount was taken according to actual data on loss incurred. The reinsurance share was determined in accordance with the valid terms and conditions of the reinsurance contract.

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**8. Impairment gain/loss and provisions**

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

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

	Group		Bank	
	Jan 1 - Mar 31, 2022	Jan 1 - Mar 31, 2021	Jan 1 - Mar 31, 2022	Jan 1 - Mar 31, 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Impairment losses on cash on hand and due from financial institutions	(547)	(313)	(549)	(314)
Impairment losses on deposits with other banks	(1)	10	(1)	10
Impairment losses on loans to financial institutions	(1,105)	(6,454)	(1,105)	(6,454)
impairment losses on loans to other customers and interest	(121,000)	(54,545)	(121,000)	(54,545)
Modification (gain) – financial institutions	(330)	(627)	(330)	(627)
Modification loss/(gain) – other customers	24,143	(4,216)	24,143	(4,216)
POCI assets – fair value adjustment at initial recognition	13,040	41,035	13,040	41,035
Impairment of financial assets at fair value through other comprehensive income	328	337	320	336
Impairment losses on other assets	2,112	358	2,081	317
Provisions for commitments	(20,381)	(627)	(20,381)	(627)
Provision for guarantees	(26,194)	15,485	(26,194)	15,485
<b>Total</b>	<b>(129,935)</b>	<b>(9,557)</b>	<b>(129,976)</b>	<b>(9,600)</b>

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

	Group		Bank	
	Jan 1 - Mar 31, 2022	Jan 1 - Mar 31, 2021	Jan 1 - Mar 31, 2022	Jan 1 - Mar 31, 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Provision for other liabilities	(415)	(40)	(415)	(40)
<b>Total</b>	<b>(415)</b>	<b>(40)</b>	<b>(415)</b>	<b>(40)</b>
<b>Total</b>	<b>(130,350)</b>	<b>(9,597)</b>	<b>(130,391)</b>	<b>(9,640)</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

9. Cash on hand and current accounts with banks

	Group		Bank	
	31 March 2022 HRK '000	31 December 2021 HRK '000	31 March 2022 HRK '000	31 December 2021 HRK '000
Account with the Croatian National Bank	1,191,738	1,879,493	1,191,738	1,879,493
Cash on hand	1	1	1	1
Foreign currency account - domestic banks	9	9	-	-
Foreign currency account - foreign banks	380,726	80,938	380,722	80,930
Domestic currency account - domestic banks	6,356	3,354	-	-
	<u>1,578,830</u>	<u>1,963,795</u>	<u>1,572,461</u>	<u>1,960,424</u>
Loss allowances	(1,262)	(1,809)	(1,255)	(1,804)
	<u>1,577,568</u>	<u>1,961,986</u>	<u>1,571,206</u>	<u>1,958,620</u>

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

31 March 2022	Group				Bank			
	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	Total HRK '000	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	Total HRK '000
Gross amount	1,578,829	-	-	1,578,829	1,572,460	-	-	1,572,460
Loss allowances	(1,262)	-	-	(1,262)	(1,255)	-	-	(1,255)
<b>Balance as of 31 March 2022</b>	<u>1,577,567</u>	-	-	<u>1,577,567</u>	<u>1,571,205</u>	-	-	<u>1,571,205</u>

31 December 2021	Group				Bank			
	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	Total HRK '000	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	Total HRK '000
Gross amount	1,963,794	-	-	1,963,794	1,960,423	-	-	1,960,423
Loss allowances	(1,809)	-	-	(1,809)	(1,804)	-	-	(1,804)
<b>Balance as of 31 December 2021</b>	<u>1,961,985</u>	-	-	<u>1,961,985</u>	<u>1,958,619</u>	-	-	<u>1,958,619</u>

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

	Group		Bank	
	Jan 1 - Mar 31, 2022	Jan 1 - Dec 31, 2021	Jan 1 - Mar 31, 2022	Jan 1 - Dec 31, 2021
	HRK '000	HRK '000	HRK '000	HRK' 000
Balance as of 1 January	1,809	1,652	1,804	1,643
Net (decrease)/increase of loss allowances on amounts due from banks	(547)	156	(549)	160
<i>Total recognised through Income Statement (Note 8)</i>	<i>(547)</i>	<i>156</i>	<i>(549)</i>	<i>160</i>
Net foreign exchange gain/loss on loss allowances	-	1	-	1
<b>Balance at the end of the reporting period</b>	<b>1,262</b>	<b>1,809</b>	<b>1,255</b>	<b>1,804</b>

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**10. Deposits with other banks**

	<b>31 March 2022 HRK '000</b>	<b>Group and Bank 31 December 2020 HRK '000</b>
Deposits with foreign banks	15,217	7,501
Accrued interest	-	-
	<b>15,217</b>	<b>7,501</b>
Loss allowances	(2)	(1)
	<b>15,215</b>	<b>7,500</b>

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

**31 March 2022**

	<b>Stage 1 HRK '000</b>	<b>Stage 2 HRK '000</b>	<b>Stage 3 HRK '000</b>	<b>Group and Bank Total HRK '000</b>
Gross amount	15,217	-	-	15,217
Loss allowances	(2)	-	-	(2)
<b>Balance as of 31 March 2022</b>	<b>15,215</b>	<b>-</b>	<b>-</b>	<b>15,215</b>

**31 December 2021**

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

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

	Group and Bank	
	Jan 1 - Mar 31, 2022	Jan 1 - Dec 31, 2021
	HRK '000	HRK '000
Balance as of 1 January	1	1
Net (decrease) of loss allowances on deposits with other banks	(1)	(1)
<i>Total recognised through Income Statement (Note 8)</i>	<u>(1)</u>	<u>(1)</u>
Net foreign exchange gain/loss on loss allowances	2	1
<b>Balance at the end of the reporting period</b>	<b><u>2</u></b>	<b><u>1</u></b>

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

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**11. Loans to financial institutions**

	<b>Group and Bank</b>	
	<b>31 March 2022</b>	<b>31 December 2021</b>
	<b>HRK '000</b>	<b>HRK '000</b>
Long-term loans under loan programmes	6,889,790	7,043,581
Short-term loans and reverse repo transactions	127,524	83,239
Accrued interest	2,981	3,418
Deferred recognition of loan origination fees	(20,355)	(21,195)
	<u>6,999,940</u>	<u>7,109,043</u>
Loss allowances	(57,980)	(58,900)
	<u><b>6,941,960</b></u>	<u><b>7,050,143</b></u>

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

<b>31 March 2022</b>	<b>Group and Bank</b>			
	<b>Stage 1 HRK '000</b>	<b>Stage 2 HRK '000</b>	<b>Stage 3 HRK '000</b>	<b>Total HRK '000</b>
Gross amount	6,786,220	204,009	9,711	<b>6,999,940</b>
Loss allowances	(28,627)	(23,194)	(6,159)	<b>(57,980)</b>
<b>Balance as of 31 March 2022</b>	<u><b>6,757,593</b></u>	<u><b>180,815</b></u>	<u><b>3,552</b></u>	<u><b>6,941,960</b></u>

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

	Jan 1 - Mar 31, 2022 HRK '000	Group and Bank Jan 1 - Dec 31, 2021 HRK '000
Balance as of 1 January	58,900	82,797
Net (decrease) of loss allowances on loans to financial institutions	(1,105)	(23,698)
<i>Total recognised through Income Statement (Note 8)</i>	<i>(1,105)</i>	<i>(23,698)</i>
Net foreign exchange gain/loss on loss allowances	185	(97)
Loss allowances transferred to loans to other customers	-	(16)
Unwinding – changes due to the lapse of time	-	(86)
<b>Balance at the end of the reporting period</b>	<b>57,980</b>	<b>58,900</b>

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

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

	<b>Group and Bank</b>	
	<b>31 March</b>	<b>31 December</b>
	<b>2022</b>	<b>2021</b>
	<b>HRK '000</b>	<b>HRK '000</b>
EU Projects	214,305	205,630
Financial Restructuring	20,547	23,247
Pre-Export Finance	1,021	1,013
Public Sector Investment	852,583	826,013
Private Sector Investment	206,750	201,419
Youth, Female, Start-up Entrepreneurship	59,551	57,234
Working Capital	13,438	12,556
Working Capital – COVID 19 measures	68,893	72,067
Loan programme for reconstruction and development of the economy	879,910	926,987
Export financing	1,442,793	1,459,505
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	924,167	968,724
Loan programme for small and medium-sized enterprises	2,202,458	2,285,623
Loan programme for war-torn and demolished housing and business facilities	3,374	3,563
Other	127,524	83,239
Accrued interest	2,981	3,418
Deferred recognition of loan fees	(20,355)	(21,195)
	<u>6,999,940</u>	<u>7,109,043</u>
Loss allowances	(57,980)	(58,900)
	<b><u>6,941,960</u></b>	<b><u>7,050,143</u></b>

Average interest rates for total loans to financial institutions are stated at 0.30% (1 January - 31 March 2021: 0.40%) and are equal to average interests rates for loans under HBOR loan programmes excluding the liquidity reserve.

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

Item "Other" refers to reverse repo agreements in the total amount of HRK 7,524 thousand (31 December 2021: HRK 8,239 thousand), The above placements are collateralized by securities in the amount of HRK 8,021 thousand (31 December 2021: HRK 8,660 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**12. Loans to other customers**

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

	Group and Bank	
	31 March 2022 HRK '000	31 December 2021 HRK '000
Domestic companies	11,519,807	11,570,002
State-owned companies	925,659	917,403
Public sector	5,524,982	5,545,114
Foreign companies	118,871	377,281
Other	490,425	498,027
Accrued interest	371,392	393,345
Deferred recognition of loan origination fees	(78,710)	(80,880)
	18,872,426	19,220,292
Loss allowances	(3,145,993)	(3,255,916)
	<b>15,726,433</b>	<b>15,964,376</b>

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

31 March 2022	Group and Bank				
	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Gross amount	13,278,637	1,437,697	2,946,913	1,209,179	<b>18,872,426</b>
Loss allowances	(379,697)	(551,655)	(2,001,445)	(213,196)	<b>(3,145,993)</b>
<b>Balance as of 31 March 2022</b>	<b>12,898,940</b>	<b>886,042</b>	<b>945,468</b>	<b>995,983</b>	<b>15,726,433</b>

31 December 2021	Group and Bank				
	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Gross amount	13,160,690	1,383,772	3,262,835	1,412,995	<b>19,220,292</b>
Loss allowances	(381,609)	(555,807)	(2,099,064)	(219,436)	<b>(3,255,916)</b>
<b>Balance as of 31 December 2021</b>	<b>12,779,081</b>	<b>827,965</b>	<b>1,163,771</b>	<b>1,193,559</b>	<b>15,964,376</b>

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

12. Loans to other customers (continued)

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

	Jan 1 - Mar 31, HRK '000	Group and Bank Jan 1 - Dec 31, 2021 HRK '000
Balance as of 1 January	3,255,916	3,475,730
Net (decrease)/increase of loss allowances on loans to other customers and interest	(121,000)	78,124
<i>Total recognised through Income Statement (Note 8)</i>	<i>(121,000)</i>	<i>78,124</i>
Net foreign exchange gain/loss on loss allowances	14,360	10,478
Write-offs	(18,174)	(35,053)
Transfer to off-balance sheet records	-	(271,036)
Derecognition due to the reduction to fair value as a result of the transfer to the portfolio of financial assets at FVPL	-	(48,019)
Derecognition due to sale of receivables	-	(737)
Loss allowances transferred from loans to financial institutions	-	16
Unwinding – changes due to the lapse of time	(4,316)	25,087
Acquisition of immovable property	-	-
Interest transferred from the off-balance sheet records and other	19,207	21,326
<b>Balance at the end of the reporting period</b>	<b>3,145,993</b>	<b>3,255,916</b>

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

The write-off of receivables in the amount of HRK 18,174 thousand (31 December 2021: HRK 35,053 thousand) relates mostly to the permanent removal from the business records due to the sale of receivables, due to the debtor's bankruptcy proceedings, as well as due to the pre-bankruptcy settlement.

The transfer to the off-balance sheet records in the amount of HRK 0 thousand (31 December 2021: HRK 271,036 thousand) was performed on the basis of the prescribed criteria in the Methodology for the Write-off of Receivables.

The cancellation of provisions due to the reduction to fair value in the amount of HRK 0 thousand (31 December 2021: HRK 48,019 thousand) was carried out after the pre-bankruptcy settlement of the debtor, based on which 50% of the debt was converted into senior debt, and 50% into mezzanine debt. When reducing the mezzanine debt to fair value, the previously formed provisions were cancelled.

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

	Group and Bank	
	31 March 2022	31 December 2021
	HRK '000	HRK '000
EU Projects	335,860	308,294
Financial Restructuring	1,181,375	1,186,514
Pre-Export Finance	89,368	96,193
Public Sector Investment	1,508,693	1,478,380
Private Sector Investment	1,014,553	730,358
Youth, Female, Start-up Entrepreneurship	31,999	31,287
Working Capital	690,797	690,681
Working Capital – COVID 19 measures	1,652,812	1,645,736
Loan programme for reconstruction and development of the economy	2,176,066	2,254,094
Export financing	3,859,846	4,375,411
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	4,640,408	4,713,628
Loan programme for small and medium-sized enterprises	1,093,956	1,140,626
Other	304,011	256,625
Accrued interest	371,392	393,345
Deferred recognition of loan origination fees	(78,710)	(80,880)
	<u>18,872,426</u>	<u>19,220,292</u>
Loss allowances	<u>(3,145,993)</u>	<u>(3,255,916)</u>
	<b><u>15,726,433</u></b>	<b><u>15,964,376</u></b>

Average interest rates on loans to other customers are stated at 2.26% (1 January – 31 March 2021: 1.82%).

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

4

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

13. Financial assets at fair value through profit or loss

	Group and Bank	
	31 March 2022 HRK '000	31 December 2022 HRK '000
<b><i>Loans at FVPL:</i></b>		
Mezzanine loans	25,652	16,375
	<b>25,652</b>	<b>16,375</b>
<b><i>Investments in investment funds:</i></b>		
Investments in investment funds at FVPL	103,541	202,260
	<b>103,541</b>	<b>202,260</b>
<b><i>Unlisted equity instruments:</i></b>		
Investments in corporate shares	31	31
Depository receipt - DR	320	318
	<b>351</b>	<b>349</b>
	<b>129,544</b>	<b>218,984</b>

The shares of companies not listed on the stock exchange in the amount of HRK 31 thousand (31 December 2021: 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 320 thousand (31 December 2021: HRK 318 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.

21

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

14. Financial assets at fair value through other comprehensive income

	31 March 2022 HRK '000	Group 31 December 2021 HRK '000	31 March 2022 HRK '000	Bank 31 December 2021 HRK '000
<b>Debt instruments:</b>				
<b>Listed debt instruments:</b>				
Bonds of the Republic of Croatia	1,587,711	1,358,981	1,537,295	1,304,974
Corporate bonds	2,388	2,393	-	-
Treasury bills of the Ministry of Finance	1,601,342	1,550,344	1,601,342	1,550,344
Accrued interest	12,055	15,620	11,716	15,194
	<b>3,203,496</b>	<b>2,927,338</b>	<b>3,150,353</b>	<b>2,870,512</b>
<b>Unlisted debt instruments:</b>				
Corporate bonds	506	532	506	532
Convertible bonds - CB	1,408	1,397	1,408	1,397
Accrued interest	237	247	237	247
	<b>2,151</b>	<b>2,176</b>	<b>2,151</b>	<b>2,176</b>
<b>Equity instruments:</b>				
<b>Unlisted equity instruments:</b>				
Investments in shares of foreign legal entities - SWIFT	45	45	45	45
Shares of foreign financial institutions – EIF	43,311	42,971	43,311	42,971
	<b>43,356</b>	<b>43,016</b>	<b>43,356</b>	<b>43,016</b>
	<b>3,249,003</b>	<b>2,972,530</b>	<b>3,195,860</b>	<b>2,915,704</b>

Non-listed convertible bonds (CB) of the Fortenova Group TopCo B.V. in the amount of HRK 1,408 thousand (31 December 2021: HRK 1,397 thousand) have been taken over through the Settlement under the Extraordinary Administration Proceedings against the company Agrokor d.d. et al.

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

31 March 2022	Group							Bank
	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	Total HRK '000	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	Total HRK '000
Gross amount	3,204,143	-	1,504	3,205,647	3,151,000	-	1,504	3,152,504
Balance as of 31 March 2022	<b>3,204,143</b>	<b>-</b>	<b>1,504</b>	<b>3,205,647</b>	<b>3,151,000</b>	<b>-</b>	<b>1,504</b>	<b>3,152,504</b>
31 December 2021	Group							Bank
	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	Total HRK '000	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	Total HRK '000
Gross amount	2,928,045	-	1,469	2,929,514	2,871,219	-	1,469	2,872,688
Balance as of 31 December 2021	<b>2,928,045</b>	<b>-</b>	<b>1,469</b>	<b>2,929,514</b>	<b>2,871,219</b>	<b>-</b>	<b>1,469</b>	<b>2,872,688</b>

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

	Group		Bank	
	Jan 1 – Mar 31, 2022	Jan 1 – Dec 31, 2021	Jan 1 – Mar 31, 2022	Jan 1 – Dec 31, 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Balance as of 1 January	4,545	4,582	4,455	4,499
Net increase of loss allowances	328	(29)	320	(36)
<i>Total recognised through Income Statement (Note 8)</i>	<i>328</i>	<i>(29)</i>	<i>320</i>	<i>(36)</i>
Net foreign exchange gain/loss on loss allowances	20	(8)	20	(8)
<b>Balance at the end of the reporting period</b>	<b>4,893</b>	<b>4,545</b>	<b>4,795</b>	<b>4,455</b>

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

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

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

The following text contains investment breakdown:

	Date of issue	Date of maturity	Interest rate (%)	31 March 2022	Group 31 December 2021	31 March 2022	Bank 31 December 2021
				HRK '000	HRK '000	HRK '000	HRK '000
<b>Listed debt instruments:</b>							
Debt instruments:							
<i>Bonds of the Republic of Croatia with a currency clause:</i>							
RHMF-O-227E	22.7.2011.	22.7.2022.	6.5	294,038	148,536	294,038	148,536
RHMF-O-247E	10.7.2013.	10.7.2024.	5.75	171,201	48,638	166,305	43,668
RHMF-O222E	5.2.2019.	5.2.2022.	0.5	-	15,032	-	15,032
<i>Bonds of the Republic of Croatia in foreign currency:</i>							
XS1117298916	11.3.2015.	11.3.2025.	3.0	304,684	312,397	304,684	312,397
XS1843434876	19.6.2019.	19.10.2029.	1.125	14,129	15,301	14,129	15,301
XS1028953989	17.06.2020.	17.06.2031.	1,500	54,012	54,241	54,012	54,241
<i>Bonds of the Republic of Croatia in HRK:</i>							
RHMF-O-257A	9.7.2015.	9.7.2025.	4.5	9,309	9,648	-	-
RHMF-O-26CA	14.12.2015.	14.12.2026.	4.25	42,716	45,344	33,788	35,815
RHMF-O-222A	7.2.2017.	7.2.2022.	2.25	-	70,165	-	70,165
RHMF-O-282A	7.2.2017.	7.2.2028.	2.875	12,559	13,583	10,561	11,422
RHMF-O-23BA	27.11.2017.	27.11.2023.	1.75	571,780	508,648	571,780	508,648
RHMF-O-297A	9.7.2018.	9.7.2029.	2.38	3,069	3,456	-	-
RHMF-O-34BA	27.11.2019.	27.11.2034.	1.00	14,680	15,743	-	-
RHMF-O-403E	3.3.2020.	3.3.2040.	1.25	7,536	8,500	-	-
RHMF-O-253A	3.3.2020.	3.3.2025.	0.25	78,472	80,082	78,472	80,082
RHMF-O-24BA	27.11.2019.	27.11.2024.	0.25	9,526	9,667	9,526	9,667
<i>Corporate bonds in HRK:</i>							
JDGL-O-24XA	18.12.2019.	18.12.2024.	1.75	1,010	1,015	-	-
HRATGRO25CA5	11.12.2020.	11.12.2025.	0.88	1,378	1,378	-	-
Treasury bills in HRK up to 364 days			0.006-0.042	1,449,808	1,400,000	1,449,808	1,400,000
Treasury bills in foreign currency up to 364 days			0.000	151,534	150,344	151,534	150,344
Accrued interest				12,055	15,620	11,716	15,194
				<b>3,203,496</b>	<b>2,927,338</b>	<b>3,150,353</b>	<b>2,870,512</b>
<b>Unlisted debt instruments:</b>							
<i>Corporate bonds with a currency clause:</i>							
LNGU-O-31AE	24.7.2015.	15.10.2031.	4.5	506	532	506	532
<i>Bonds of foreign corporate in foreign currency</i>							
Fortenova Group TopCo B.V.	1.4.2019.	1.4.2029.	2.5	1,408	1,397	1,408	1,397
Accrued interest				237	247	237	247
				<b>2,151</b>	<b>2,176</b>	<b>2,151</b>	<b>2,176</b>
<b>Equity instruments:</b>							
<i>Unlisted equity instruments:</i>							
Investments in shares of foreign legal entities - SWIFT				45	45	45	45
Investments in shares of foreign financial institutions - EIF				43,311	42,971	43,311	42,971
				<b>43,356</b>	<b>43,016</b>	<b>43,356</b>	<b>43,016</b>
<b>Total</b>				<b>3,249,003</b>	<b>2,972,530</b>	<b>3,195,869</b>	<b>2,915,704</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**15. Foreclosed assets**

	31 March 2022 HRK '000	Group and Bank 31 December 2021 HRK '000
Foreclosed assets	24,996	21,369
	<b>24,996</b>	<b>21,369</b>

In the reporting period 2022, acquisition of property took place with present value in the amount of HRK 3,486 thousand, acquisition value of HRK 3,635 thousand and provisions of HRK 149 thousand, and relates to land plot in the amount of HRK 234 thousand, acquisition value of HRK 234 thousand and provisions of HRK 0 thousand, buildings in the amount of HRK 3,252 thousand, acquisition value of HRK 3,401 thousand and provisions of HRK 149 thousand (in 2021, acquisition of property took place with present value in the amount of HRK 8,185 thousand, acquisition value of HRK 8,508 thousand and provisions of HRK 323 thousand, and relates to land plot in the amount of HRK 1,900 thousand, acquisition value of HRK 2,074 thousand and provisions of HRK 174 thousand, buildings in the amount of HRK 4,717 thousand, acquisition value of HRK 4,866 thousand and provisions of HRK 149 thousand and apartments in the amount of HRK 1,568 thousand, acquisition value of HRK 1,568 thousand and provisions of HRK 0 thousand).

Fair value of acquired property as at 31 March 2022 amounted to HRK 3,635 thousand.

In the reporting period, sale of foreclosed assets took place with present value in the amount of HRK 9 thousand, acquisition value of HRK 297 thousand and provisions of HRK 288 thousand relates to land plot (in 2021, sale of foreclosed assets took place with present value in the amount of HRK 10,156 thousand, acquisition value and provisions of HRK 24,218 thousand and provisions of HRK 14,062 thousand, and relates to land plot in the amount of HRK 486 thousand, buildings in the amount of HRK 2,886 thousand and apartments in the amount of HRK 6,784 thousand).

In the reporting period 2022, foreclosed assets were transferred to lease on the item Investments in property in the amount of HRK 2,720 thousand (2021: HRK 2,757 thousand), which is presented under Other assets due to immaterial significance. In the reporting period, this property was depreciated in the amount of HRK 36 thousand (2021: HRK 133 thousand).

The fair value of foreclosed assets at the beginning of the reporting period stood at HRK 29,951 thousand and the end of the reporting period at HRK 33,451 thousand.

The amount of the adjustment for the Group and the Bank that has an effect on the profit or loss stood at HRK 0 thousand in 2021 (2021: increase of HRK 750 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

16. Other assets

	Group		Bank	
	31 March 2022 HRK '000	31 December 2021 HRK '000	31 March 2022 HRK '000	31 December 2021 HRK '000
Fees receivable	25,729	25,787	25,729	25,787
Other receivables	11,043	10,609	11,043	10,609
Prepaid expenses	4,369	3,344	3,924	3,018
Accrued income	24,315	22,923	24,313	22,921
Premium receivables	1,638	1,797	-	-
Receivables for reinsurance commissions	1,160	645	-	-
Receivables for risk assessment fees	242	324	-	-
Deferred tax assets	584	-	-	-
Leased assets	4,694	801	4,694	801
Other assets	3,100	3,158	3,018	3,055
	<b>76,974</b>	<b>69,388</b>	<b>72,721</b>	<b>66,191</b>
Loss allowances	<b>(33,975)</b>	<b>(31,851)</b>	<b>(33,764)</b>	<b>(31,697)</b>
	<b>42,999</b>	<b>37,537</b>	<b>38,957</b>	<b>34,494</b>

Lease assets are recognized in accordance with the application of the IFRS 16 and depreciation during the reporting period stood at HRK 545 thousand for the Group and HRK 507 thousand for the Bank,

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

31 March 2022					Group					Bank
	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Gross amount	5,138	4	34,360	310	39,812	2,098	4	34,360	310	36,772
Loss allowances	(225)	(1)	(33,499)	(250)	(33,975)	(14)	(1)	(33,499)	(250)	(33,764)
Balance as of 31 March 2022	<b>4,913</b>	<b>3</b>	<b>861</b>	<b>60</b>	<b>5,837</b>	<b>2,084</b>	<b>3</b>	<b>861</b>	<b>60</b>	<b>3,008</b>
31 December 2021					Group					Bank
	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Gross amount	6,117	16	32,728	301	39,162	3,351	16	32,728	301	36,396
Loss allowances	(179)	(4)	(31,418)	(250)	(31,851)	(25)	(4)	(31,418)	(250)	(31,697)
Balance as of 31 December 2021	<b>5,938</b>	<b>12</b>	<b>1,310</b>	<b>51</b>	<b>7,311</b>	<b>3,326</b>	<b>12</b>	<b>1,310</b>	<b>51</b>	<b>4,699</b>

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**16. Other assets (continued)**

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

	Group		Bank	
	31 March 2022	31 December 2021	31 March 2022	31 December 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Fees receivable	25,729	25,787	25,729	25,787
Other receivables	11,043	10,609	11,043	10,609
Premium receivables	1,638	1,797	-	-
Receivables for reinsurance	1,160	645	-	-
Receivables for risk assessment fees	242	324	-	-
	<u>39,812</u>	<u>39,162</u>	<u>36,772</u>	<u>36,396</u>
Loss allowance	(33,975)	(31,851)	(33,764)	(31,697)
<b>Subtotal – credit risk</b>	<b>5,837</b>	<b>7,311</b>	<b>3,008</b>	<b>4,699</b>

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

	Group		Bank	
	Jan 1 - Mar 31, 2022	Jan 1 - Dec 31, 2021	Jan 1 - Mar 31, 2022	Jan 1 - Dec 31, 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Balance as of 1 January	31,851	34,536	31,697	34,396
Net increase/(decrease) of loss allowances on other assets	2,112	(2,542)	2,081	(2,551)
<i>Total recognised through Income statement (Note 8)</i>	<u>2,112</u>	<u>(2,542)</u>	<u>2,081</u>	<u>(2,551)</u>
Write-offs	(27)	(14)	(27)	(2)
Transfer to off-balance sheet records	-	(149)	-	(149)
Net foreign exchange gain/loss on loss allowances	5	3	5	3
Other adjustments	34	17	8	-
<b>Balance at the end of the reporting period</b>	<b>33,975</b>	<b>31,851</b>	<b>33,764</b>	<b>31,697</b>

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

76

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

**17. Deposits from customers**

	<b>31 March 2022 HRK '000</b>	<b>Group and Bank 31 December 2021 HRK '000</b>
Bank deposits	117,424	417,163
Foreign currency regular accounts of companies	6	6
Foreign currency account of the Ministry of Finance of the Republic of Croatia	98,961	96,666
Foreign currency special purpose accounts of the companies	53,150	58,567
Foreign currency special accounts of foreign financial institutions	1,480	3,059
State institutions' deposits	295,440	341,810
Other deposits	41,076	43,270
	<b>607,537</b>	<b>960,541</b>

Bank deposits in 2022 relate to loro deposits of the Bulgarian Development Bank AD.

The foreign currency account of the Ministry of Finance of the Republic of Croatia relates to the Export Insurance Guarantee Fund comprising of reinsurance premiums paid for export insurance operations of HRK 98,961 thousand (31 December 2021: HRK 96,666 thousand).

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

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

Foreign currency special accounts of foreign financial institutions relate to the proceeds of ELENA grant, and it relates to the first tranche of 40% of ELENA grant amount upon signing of the Finance Contract in the amount of EUR 839 thousand, reduced by funds used for the intended purpose and account balance on 31 March 2022 amounted to HRK 1,480 thousand (31 December 2021: HRK 3,059 thousand).

HBOR does not pay interest on the above deposits.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**18. Borrowings**

	<b>Group and Bank</b>	
	<b>31 March 2022</b>	<b>31 December 2021</b>
	<b>HRK '000</b>	<b>HRK '000</b>
Balance as of 1 January	16,104,000	16,852,094
New borrowings	152,693	1,668,482
Repayments	(559,871)	(2,391,147)
Net foreign exchange gain/loss	117,501	(25,429)
	<u>15,814,323</u>	<u>16,104,000</u>
Accrued interest	41,787	34,657
Deferred fees	(27,487)	(23,420)
	<u><b>15,828,623</b></u>	<u><b>16,115,237</b></u>

The bank is subject to financial clauses in some Contracts. On 31 March 2022 the Bank was in compliance with all required financial clauses from the Contract.

The financial clauses contained in the Agreement are linked with financial information on the level of capital adequacy ratio and the amount of total capital.

Borrowing liabilities of the Group and HBOR relate to one foreign commercial bank in the amount of EUR 50.0 million maturing on 22 May 2022, and there are no additional contingent borrowing liabilities of the Group and HBOR.

	<b>Group and Bank</b>	
	<b>31 March</b>	<b>31 December</b>
	<b>2022</b>	<b>2020</b>
	<b>HRK '000</b>	<b>HRK '000</b>
Borrowings from foreign financial institutions <sup>e</sup>	14,314,323	14,604,000
Borrowings from domestic institutions	1,500,000	1,500,000
	<u>15,814,323</u>	<u>16,104,000</u>
Accrued interest	41,787	34,657
Deferred recognition of fees	(27,487)	(23,420)
	<u><b>15,828,623</b></u>	<u><b>16,115,237</b></u>

(a) Borrowings from foreign financial institutions relate to long-term loans from special financial institutions, mainly the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB).

(b) Borrowings from domestic institutions relate to a loan from the Ministry of Finance of the Republic of Croatia.

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

19. Provisions for guarantees, commitments and other liabilities

	Group		Bank	
	31 March 2022	31 December 2021	31 March 2022	31 December 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Provisions for guarantees and commitments	84,347	129,587	84,347	129,587
Provisions for other liabilities	60,558	60,973	60,301	60,716
	<b>144,905</b>	<b>190,560</b>	<b>144,648</b>	<b>190,303</b>

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

	Group		Bank	
	Jan 1 - Mar 31, 2022	Jan 1 - Dec 31, 2021	Jan 1 - Mar 31, 2022	Jan 1 - Dec 31, 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Balance as of 1 January	129,587	45,556	129,587	45,556
Net (release)/increase of loss allowances on guarantees	(26,194)	74,799	(26,194)	74,799
<i>Total recognised through Income Statement (Note 8)</i>	<i>(26,194)</i>	<i>74,799</i>	<i>(26,194)</i>	<i>74,799</i>
Net (release)/increase of loss allowances on commitments	(20,381)	7,503	(20,381)	7,503
<i>Total recognised through Income Statement (Note 8)</i>	<i>(20,381)</i>	<i>7,503</i>	<i>(20,381)</i>	<i>7,503</i>
Net foreign exchange on loss allowances	1,335	1,729	1,335	1,729
<b>Balance at the end of the reporting period - Provisions for guarantees and commitments</b>	<b>84,347</b>	<b>129,587</b>	<b>84,347</b>	<b>129,587</b>
Balance as of 1 January	60,973	62,500	60,716	62,240
Net (release) of loss allowances on other liabilities	(415)	(2,358)	(415)	(2,355)
<i>Total recognised through Income Statement (Note 8)</i>	<i>(415)</i>	<i>(2,358)</i>	<i>(415)</i>	<i>(2,355)</i>
Unrealized actuarial gains/(losses)	-	831	-	831
<b>Balance at the end of the reporting period - Provisions for other liabilities</b>	<b>60,558</b>	<b>60,973</b>	<b>60,301</b>	<b>60,716</b>

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

Out of the total provisions for guarantees and commitments, the amount of HRK 3,200 thousand relates to financial institutions (31 December 2021: HRK 2,695 thousand), HRK 80,450 thousand relates to domestic companies (31 December 2021: HRK 125,172 thousand), HRK 307 thousand relates to the public sector (31 December 2021: HRK 1,371 thousand), HRK 239 thousand relates to non-profit institutions (31 December 2021: HRK 239 thousand), HRK 151 thousand relates to other (31 December 2021: HRK 110 thousand).

4

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**20. Other liabilities**

	Group		Bank	
	31 March 2022	31 December 2021	31 March 2022	31 December 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Liabilities in respect of subsidized interest (a)	175,184	174,027	175,184	174,027
Deferred recognition of interest income (b)	172,610	186,159	172,610	186,159
Accrued salaries	8,245	8,613	8,015	8,397
Liabilities to suppliers	1,778	2,180	1,667	2,065
Liabilities for prepaid receivables	4,154	4,921	4,154	4,921
Deferrable premium	5,368	5,219	-	-
Provisions for claims	8,708	6,815	-	-
Provisions for return premiums	1,426	1,454	-	-
Liabilities to re-insurers	4,426	2,443	-	-
Deferred tax liabilities	401	401	-	-
Corporate income tax-current liability	-	208	-	-
Lease liabilities	4,970	1,148	4,663	800
Other liabilities	4,717	41,651	3,017	39,809
	<b>391,987</b>	<b>435,239</b>	<b>369,310</b>	<b>416,178</b>

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

- HRK 169,258 thousand in respect of the Programme of Preferential Financing through HBOR's Loan Programmes (31 December 2021: HRK 168,750 thousand),
- HRK 4,093 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 2021: HRK 3,468 thousand),
- HRK 324 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 2021: HRK 309 thousand),
- Subsidising of interest for the purchase of mobile homes for business entities in the tourism industry in the amount of HRK 1,500 thousand (31 December 2021: HRK 1,500 thousand).

(b) Deferred recognition of interest income of HRK 172,610 thousand (31 December 2021: HRK 186,159 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 45,580 thousand (31 December 2021: HRK 58,042 thousand), and in respect of those already in repayment stage amounting to HRK 127,030 thousand (31 December 2021: HRK 128,117 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**21. Guarantees and commitments**

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

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

**Group and Bank**

	<b>31 March 2022</b>	<b>31 December 2021</b>
	<b>HRK '000</b>	<b>HRK '000</b>
Guarantees issued in HRK	177,235	170,555
Guarantees issued in foreign currency	233,664	325,103
Undrawn loans	3,198,985	3,492,038
EIF – subscribed, not called up capital	78,798	78,179
EIF CROGIP Contracted Liability	314,963	312,489
EIF FRC2 Contracted Liability	5,183	6,243
	<u>4,008,828</u>	<u>4,384,607</u>
Provisions for guarantees and commitments	<u>(84,347)</u>	<u>(129,587)</u>
	<b><u>3,924,481</u></b>	<b><u>4,255,020</u></b>

The following tables set out information about the credit quality of guarantees and commitments. For loan commitments and financial guarantee contracts, the amounts in the tables represent the amount committed or guaranteed:

	<b>Group and Bank</b>					
	<b>Stage 1 HRK '000</b>	<b>Stage 2 HRK '000</b>	<b>Stage 3 HRK '000</b>	<b>POCI HRK '000</b>	<b>Without stage HRK '000</b>	<b>Total HRK '000</b>
<b>31 March 2022</b>						
Gross amount	3,097,494	208,620	237,128	66,642	-	3,609,884
Loss allowances	(9,490)	(7,622)	(57,574)	(9,661)	-	(84,347)
<b>Balance as of 31 March 2022</b>	<u>3,088,004</u>	<u>200,998</u>	<u>179,554</u>	<u>56,981</u>	<u>-</u>	<u>3,525,537</u>
<b>31 December 2021</b>						
Gross amount	3,311,893	302,747	326,551	46,505	-	3,987,696
Loss allowances	(10,652)	(26,256)	(82,779)	(9,900)	-	(129,587)
<b>Balance as of 31 December 2021</b>	<u>3,301,241</u>	<u>276,491</u>	<u>243,772</u>	<u>36,605</u>	<u>-</u>	<u>3,858,109</u>

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

**21. Guarantees and commitments (continued)**

*Guarantees*

Issued guarantees and open letters of credit represent the liability to the Bank to make payments on behalf of customers if the customer is unable to honour its commitments towards third parties or in the event of a specific act, generally related to the export or import of goods and other purposes specified in the contracts with the customers. Guarantees and letters of credit bear the same credit risk as loans.

Bank guarantees are, to the extent of 20%, collateralized by the guarantees, deposits and bank guarantees.

*Commitments upon undrawn loans*

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

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

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**22. Related-party transactions**

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

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

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

Assets and liabilities as of 31 March 2022 and 31 December 2021, and income and expense for the period 1 January to 31 March 2022 and for the period 1 January to 31 March 2021 arising from transactions with related parties, including the Bank's key management personnel, include the following:

a) Related-party transactions

Group	Assets	Liabilities	Assets	Liabilities
	31 March 2022	31 March 2022	31 December 2021	31 December 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	3,618,688	1,820,012	3,348,080	1,853,263
Government funds, executive authorities and agencies	4,602,304	249,073	4,617,620	257,050
State-owned companies	900,445	32	914,416	59
Associates	-	-	7	-
Key management personnel	2,159	2,270	3,393	2,701
<b>Total</b>	<b>9,123,596</b>	<b>2,071,387</b>	<b>8,883,516</b>	<b>2,113,073</b>

Group	Income	Expense	Income	Expense
	Jan 1 – Mar 31 2022	Jan 1 – Mar 31 2022	Jan 1 – Mar 31 2021	Jan 1 – Mar 31 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	11,259	4,082	13,149	5,755
Government funds, executive authorities and agencies	23,566	2,884	19,915	50
State-owned companies	11,698	5,209	18,168	13,017
Associates	-	-	26	-
Key management personnel	17	2,257	3,348	1,926
<b>Total</b>	<b>46,540</b>	<b>14,432</b>	<b>54,606</b>	<b>20,748</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

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

a) Related-party transactions (continued)

Bank	Assets		Liabilities	
	31 March	31 March	31 December	31 December
	2022	2022	2021	2021
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	3,618,688	1,820,012	3,348,080	1,853,263
Government funds, executive authorities and agencies	4,551,517	249,045	4,563,167	257,009
State-owned companies	900,442	30	914,412	54
Subsidiary companies	36,123	-	36,124	-
Associates	-	-	7	-
Key management personnel	2,159	2,152	3,393	2,585
<b>Total</b>	<b>9,108,929</b>	<b>2,071,239</b>	<b>8,865,183</b>	<b>2,112,911</b>

Bank	Income		Expense	
	Jan 1 – Mar			
	31 2022	31 2022	31 2021	31 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	11,259	4,082	13,149	5,755
Government funds, executive authorities and agencies	23,242	2,873	19,603	39
State-owned companies	11,698	5,195	18,168	13,004
Subsidiary companies	-	-	-	-
Associates	-	-	26	-
Key management personnel	17	1,859	3,348	1,561
<b>Total</b>	<b>46,216</b>	<b>14,009</b>	<b>54,294</b>	<b>20,359</b>

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

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

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

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

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

22. Related-party transactions (continued)

b) Collateral received

	Group		Bank	
	31 March 2022	31 December 2021	31 March 2022	31 December 2021
	HRK '000	HRK '000	HRK '000	HRK '000
The Republic of Croatia	6,640,601	5,243,064	6,639,953	5,242,142
State agencies	563,477	590,684	563,477	590,684
<b>Total</b>	<b>7,204,078</b>	<b>5,833,748</b>	<b>7,203,430</b>	<b>5,832,826</b>

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

Pursuant to the Quota Reinsurance Contract between HBOR, in the name and for the account of the Republic of Croatia, and HKO d.d., reinsurance is carried out, i.e. cover is provided for a proportional part (quota reinsurance) of political and commercial risks under export loans and receivables arising from the export of goods and services. The Reinsurer covers all non-marketable (non-market) risks assumed by the Insurer, i.e. Croatian Credit Insurance, joint stock insurance company, in the range from 15% to 90% of the insured amount.

c) Salaries of key management personnel

Key members of the Group's and the Bank's management include members of the Management Board, senior executive directors, head of the Management Board Office, executive directors, assistant director, advisors to the Management Board and an authorised agent (proxy).

Salaries include compensation paid for regular work, annual vacation, national holidays, paid leave, sick leave, benefits payable for past service and payments under contractual agreements. Salaries for the Group in the reporting period amounted to HRK 2,235 thousand (1 January to 31 March 2021: HRK 1,912 thousand), and for the Bank amounted to HRK 1,859 thousand (1 January to 31 March 2021: HRK 1,558 thousand).

Remuneration for the work of the members of the Supervisory Board for the Group amounted to HRK 22 thousand (1 January to 31 March 2021: HRK 14 thousand) and for the Bank amounted to HRK 0 thousand (1 January to 31 March 2021: HRK 3 thousand) and it relates to the members of supervisory boards at associates and subsidiaries who were appointed by HBOR.

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

### **23. Risk management**

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

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

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

The Bank implements sensitivity analyses and scenario analyses, provided that one or several risk factors are changed in regular or stressful circumstances, and HBOR's bodies in charge are informed of the respective results. The systems of pro-active risk management are continuously developed for the purpose of reducing possible future risks.

#### **23.1. Overview of the most important risks**

##### **Credit risk**

The Bank controls credit risk through its credit policies and the credit risk management ordinance, which prescribe internal control systems with the aim of acting on the risk preventively.

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

##### **Liquidity risk, currency risk and interest rate risk**

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

##### **Liquidity risk**

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

In order to manage liquidity risk, the Bank has established a system of limits and early warning signals, monitors and controls limit utilisation, maintains the adequate level of liquidity reserve, continuously monitors current and planned liquidity, ensures HRK and foreign currency funds necessary for timely settlement of liabilities and for disbursements of approved loans and planned loan approvals. In terms of liquidity risk management, the maturity matching of existing and planned placements and their sources is .

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

**23. Risk management (continued)**

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

**Liquidity risk (continued)**

strived to be achieved. The Bank does not hold deposits of citizens and is therefore not exposed to wide daily fluctuations in liquidity.

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

**Interest rate risk**

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

**Currency risk**

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

For the purposes of measuring exposure to currency risk, the open foreign currency position is monitored. In addition to the daily monitoring of the open foreign currency position and the projections of its developments, for the purposes of assessing and measuring the currency risk, the risk value is calculated, and reports are regularly submitted to the bodies in charge on maximum possible losses on significant currencies. Sensitivity analyses in regular or stressful business conditions are also performed.

**Operational risk**

HBOR has established a framework for the management of operational risk that is aligned with the regulations prescribed by the Croatian National Bank applicable to the operations of the Bank as the special financial institution and with the good banking practices in the area of risk management, and that was introduced in 2012.

7

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

**23. Risk management (continued)**

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

**Operational risk (continued)**

The basic principles of operational risk management were identified in the umbrella act, Operational Risk Management Policies, the structure of management and accountability in the system was set up, the approach for the calculation of capital requirements for operational risk was determined, the reporting system was established as well as the manners of establishing, managing and monitoring the exposure to operational risk. The management system covers the operational risk at business changes, new products included, and operational risk at the outsourcing of activities.

The Committee for IT management was established in order to monitor IT system performance with the purpose of IT resources management by setting the appropriate level of efficiency and security of IT for providing, among other things, appropriate management of risks arising from IT technology utilisation.

The Head of IT System Security function is in charge of monitoring the security of the IT system. Within this function, a system for the management of HBOR's business continuity was established.

In 2022, there is a significant impact of an operational risk event on the Bank's operations - the earthquake in Zagreb. The crisis event was recorded in 2020 in the operational risk base, where its financial effects are continuously updated. Also, in order to ensure business continuity due to the inability to use the earthquake-damaged main office building of the Bank, workers were allowed to continue working from home.

In addition, in 2022, HBOR's exposure to operational risk was significantly affected by the Euro introduction project aimed at the timely harmonisation of HBOR with the National Plan for the Changeover from the Croatian Kuna to the Euro, the Act on the Introduction of the Euro as the Official Currency in the Republic of Croatia and other legislation to which HBOR is subject. In order to ensure the meeting of deadlines and the continuity and integrity of operations after the changeover to the Euro as the official currency, HBOR focused on the priority and availability of resources for the timely implementation of this project.

**Outsourcing risk**

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

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

76

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

**23. Risk management (continued)**

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

**Outsourcing risk (continued)**

The EUR introduction project will also have an impact on the risk of outsourcing for outsourced key („core“) activities, given the complexity of the project and the legal deadline, and HBOR, in cooperation with key service providers, implements necessary measures to minimize this risk.

**23.2. Strategy and risk management systems**

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

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

**Risk management committees**

- **Assets and Liabilities Management Committee (ALCO)** – manages liquidity risk, interest rate risk and currency risk within the framework of the Liquidity Risk Management Ordinance, the Currency Risk Management Ordinance and the Interest Rate Risk Management Procedures, Trading Book Ordinance, the Assets and Liabilities Management Policies as well as other documents of the Bank that regulate this area,
- **Credit Risk Evaluation and Measurement Committee** – manages credit risk within the framework set through accepted Loan Policies, Credit Risk Management Ordinance, methodologies and other internal acts that cover issues related to credit risk,
- **HBOR Information System Management Committee** – manages the resources of the information system and adequately manages the risks that result from the use of information technology.

**The Risk Management Division**

The Risk Management Division is a permanent risk control function, which is functionally and organisationally independent of the business processes and activities in which the risk occurs or is monitored and supervised. It is responsible for controlling, determining, measuring, assessing and supervising the risks to which HBOR is exposed or could be exposed in its business operations.

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

**23. Risk management (continued)**

**23.2. Strategy and risk management systems (continued)**

**Risk measurement and reporting systems**

When assessing or measuring risk, historical data, business plans, current and expected market conditions and the specific characteristics of the Bank as a special financial institution are taken into account.

The results of risk assessments or measurements, analyses carried out and stress test are presented at the meetings of the Risk Management Committee and the Management Board. For the purpose of risk monitoring and control, systems of limits are introduced for the management of credit risk, liquidity risk, interest rate risk and currency risk.

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

**23.3. Credit risk**

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

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

In addition to the Credit Risk Management Ordinance, methodologies have been adopted as separate internal documents intended for the assessment of operations of various client target groups.

In the case of direct financing, the Credit Risk Assessment Methodology (for gross exposures exceeding HRK 3,000 thousand) or the Credit Scoring Methodology (for gross exposures below HRK 3,000 thousand) is used to determine creditworthiness. The Credit Scoring Methodology is used to determine creditworthiness of clients that belong to the "small loan portfolio" and it contains seven scoring models:

- placements up to HRK 300 thousand to companies, crafts businesses and farmers,
- placements up to HRK 300 thousand to start-ups,
- placements from HRK 300 thousand to HRK 1,500 thousand to companies,
- placements from HRK 300 thousand to HRK 1,500 thousand to start-ups,
- placements from HRK 300 thousand to HRK 1,500 thousand to all other entrepreneurs,

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

---

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

- placements from HRK 1,500 thousand to HRK 3,000 thousand to companies and start-ups, and
- placements from HRK 1,500 thousand to HRK 3,000 thousand to all other entrepreneurs.

The Credit Rating Assessment Methodology is used for the assessment of the risk of the clients that have been classified to the portfolio of individually significant clients, i.e. gross exposures exceeding HRK 3,000 thousand. The risk assessment can be contained in the assessment of client creditworthiness, assessment of investment project success and assessment of client creditworthiness containing analysis of future operations.

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

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

Through continuous monitoring and evaluation of clients' business operations, HBOR tries to identify difficulties in their business operations in time. For clients with difficulties, the Bank tries to find appropriate ways to collect receivables by considering the possibilities of alternative repayment terms with a view to continue the production process and employment increase. Special emphasis is placed on identifying and monitoring reasons for bad debts, and procedures for prevention are built in operational procedures with a view to decreasing the share of high risk placements.

In order to mitigate the negative consequences of the coronavirus pandemic, the Bank, with the aim of preserving the level of economic activity and liquidity of economic entities and most importantly, preserving jobs, enabled rescheduling of obligations.

Due to the approval of a larger number of loans in a relatively short period of time in 2020, certain activities in the existing manner and procedure of processing loan applications have been reduced that are prescribed by the Credit Risk Management Ordinance and that are covered by separate Instructions having been implemented on COVID-19 loans and loans for the areas struck by the earthquake in 2021 as well.

For the purpose of risk monitoring and control, the systems of limits have been established for the management of credit risk. High exposure limits and amounts of maximum permitted credit exposure to individual borrowers and persons related to borrowers have been established.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

---

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

***Implemented moratoriums***

In order to assess the impact of the crisis on the portfolio of its clients, the Bank reviews the operations of its clients, especially those affected by the COVID-19 crisis, who requested a moratorium or some kind of COVID-measures. According to the interpretations of the accounting authorities, the stated COVID-19 moratoriums do not automatically mean that there has been a significant increase in credit risk. The Bank assesses the performance of its clients that are in a moratorium by considering whether the difficulties faced by the clients are only of a temporary nature, in which case the approval of a moratorium did not represent a significant increase in credit risk.

**23.3.1. Risk related to loan commitments**

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

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

**23.3.2. Impairment assessment**

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

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

- Stage 1 – includes all clients with low credit risk and clients with respect to which no significant increase in credit risk has been established,
- Stage 2 – includes all clients with respect to which a significant increase in credit risk since initial recognition has been established,
- Stage 3 – includes clients in default, i.e. clients with respect to which there is objective evidence of value impairment
- and separate category - Purchased or originated credit impaired asset, POCl.

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

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

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

---

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

**23.3.2. 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 off-balance sheet liabilities of a client are considered as one.

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

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

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

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

The materiality threshold is HRK 750 for citizens, and HRK 3,750 for other clients, and is calculated at the client level by summing up due liabilities for all client placements.

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

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

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

### 23. Risk management (continued)

#### 23.3. Credit risk (continued)

##### 23.3.2. Impairment assessment (continued)

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

When determining a default status, in addition to the aforementioned, the relations within a group of related entities are also considered if the default status has been established with regard to one of the debtors within the respective group of related entities that results in the spreading of the default status on other entities within the same group.

All financial instruments of client in default status are classified to Stage 3.

Placements to clients in default status due to a material delay in the payment of obligations for more than 90 days can be classified to the rehabilitated category if 150 days have lapsed from the moment of non-existence of the default status trigger. During the 150-day trial period, client must not be more than 30 days overdue in the payment of obligations in a materially significant amount.

After the lapse of 150 days, only those clients are considered to have been cured who are found not to be in financial difficulties. If there are signs of default status recurrence, the status is not changed until a genuine and permanent improvement in the credit quality of client.

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

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

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

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

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

Financial instruments of rehabilitated/recovered clients are classified into performing exposures after all conditions of the probation period have been met. All placements of clients after forbearance /restructuring are considered forborne for two years from the moment when classified as performing exposures, and in that period, they are classified as risk level 2.

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

### 23. Risk management (continued)

#### 23.3. Credit risk (continued)

##### 23.3.2. Impairment assessment (continued)

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

All clients that were not approved concessions due to financial difficulties, and HBOR's exposure to them ceased to be non-performing, are classified as risk level 1 after the recovery.

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

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

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

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

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

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

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: "BBB". 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,

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

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

the internal rating is used, i.e. the rules are applied that are identical to those applied to domestic financial institutions.

The value of 12-month PD is assessed by multiplying TTC matrix with itself. The value of lifelong PD is the cumulative value of marginal PD values or the sum of borderline PD values depending on the exposure tenor.

**23.3.2.3. Exposure at default**

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

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

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

- a repayment schedule for exposure – based on the cash flow from the repayment schedule,
- no repayment schedule for exposure – based on exposure amount on the reporting date.

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

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

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

---

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

**23.3.2. Impairment assessment (continued)**

**23.3.2.4. Loss given default**

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

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

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

**23.3.2.5. Significant increase in credit risk**

For the purpose of identifying an increased credit risk, changes for all clients of the Bank are monitored continuously, but at least once a year. All placements to the client, where an increased credit risk has been identified or in case of individually significant clients, whose exposure exceeds HRK 3,000 thousand and are on the client watch list, on the next reporting date, all financial instruments of the client with increased credit risk are classified to stage 2 based on the observed criteria such as:

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

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

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

### 23. Risk management (continued)

#### 23.3. Credit risk (continued)

##### 23.3.2. Impairment assessment (continued)

###### 23.3.2.5. Significant increase in credit risk (continued)

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

###### 23.3.2.6. Grouping financial assets measured on a collective basis

Credit risk is evaluated on a collective basis for all clients classified into risk stages 1 and 2 as well as for clients in the risk stage 3 belonging to the small loan portfolio. The clients belonging to the small loan portfolio are clients to which HBOR is exposed in the gross amount that is equal or less than HRK 3,000 thousand.

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

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

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

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

### 23. Risk management (continued)

#### 23.3. Credit risk (continued)

##### 23.3.3. Analysis of input for ECL model within the framework of impact of macroeconomic conditions on PD

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

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

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

The expected credit losses reflect the Bank'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 Bank also considers appropriate market data on the credit risk of a certain financial instrument or similar financial instruments.

For the calculation of expected credit losses, the Bank uses a large number of macroeconomic conditions, for one of which (GDP real growth rate) correlations on total PDs have been established for the entire portfolio of direct loans.

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

##### 32.3.4. Quantitative analysis of the reliability of the information used to calculate the ECL allowance

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

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

### 23. Risk management (continued)

#### 23.3. Credit risk (continued)

##### 23.3.5. Overview of modified and restructured loans

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

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

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

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

Evidence on concession includes the following:

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

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

##### 23.3.6. Analysis of risk concentration

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

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

As of 31 December 2021, the highest credit exposure of the Group and the Bank to one debtor equalled HRK 2,102,579 thousand and of the Bank HRK 2,669,528 thousand (31 December 2020: HRK 2,675,492 thousand for the Group and HRK 2,669,528 thousand for the Bank) without considering the effect of mitigation through collateral received.

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

### 23. Risk management (continued)

#### 23.3. Credit risk (continued)

##### 23.3.6. Analysis of risk concentration

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

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

##### 23.3.7. Risk-Sharing Model

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

Loans according to the risk-sharing models under HBOR loan programmes (primarily loans for investments and restructuring, and to a lesser extent for liquidity) are implemented in such a way that commercial banks involved in such transactions are still agents (administrative, payment and collateral agents), but HBOR conducts the usual procedure as for any other direct loan and enters, both exposures and collateral, into the business records after contracting or implementing the collateral for placements.

As part of measures to help the economy due to the coronavirus pandemic, it was possible to approve new liquidity loans to entrepreneurs severely affected by the crisis caused by the coronavirus pandemic under the risk-sharing model with commercial banks. Due to the short deadline for processing large number of loan applications, the current loan process prescribed by the Credit Risk Management Ordinance has been accelerated and shortened for this purpose.

Taking into account that very often HBOR does not have a direct contact with its clients, HBOR uses quarterly reports or obtains necessary information from commercial banks to monitor its clients to which it has a gross exposure of more than HRK 3,000 thousand under the procedure for direct loans.

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

### 23. Risk management (continued)

#### 23.3. Credit risk (continued)

##### 23.3.8. Collaterals and other credit quality (creditworthiness) improvement

Collateral for the Bank's placements are:

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

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

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

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

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

### 23. Risk management (continued)

#### 23.3. Credit risk (continued)

##### 23.3.8. Collaterals and other credit quality (creditworthiness) improvement (continued)

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

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

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

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

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

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

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

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

### 23. Risk management (continued)

#### 23.3. Credit risk (continued)

##### 23.3.8. Collateral and other credit enhancements (creditworthiness) (continued)

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

In case of the real estate, the necessary ratio of placement and estimated market value of the real estate should be 1:1.3, except in case of investments on the islands, supported areas where such ratio is 1:1.2. In case of moveable property, the necessary ratio of placement and estimated market value of moveable property should be 1:2. If a lower ratio of the collateral value than those prescribed is proposed, reasons and justifications of deviations from the prescribed ratio are explained. For direct financing of entrepreneurs' liquidity through COVID-19 loans or loans for earthquake-affected areas of Sisak-Moslavina county, cover is provided is through coverage of loans by collateral of at least 70%.

The Bank continually monitors the value of collaterals by re-estimation or confirmation/verification of the value. Monitoring of the value of mortgaged real estate is performed once a year for business real estate, and every three years for residential buildings. The Bank has formed a special organizational unit for:

- evaluation and verification of already appraised and offered collateral (real estate and movables),
- technical and technological analysis of investment projects, and
- financial supervision over the withdrawal of loan funds for the purpose of the implementation of the investment project.

In the event that it is not possible for the Bank to collect from regular operations, the Bank starts collection from the collateral at its disposal. This encompasses initiating collection from the obligatory collateral, then from first-class, unconditional collateral payable on first demand and then from the mortgage or fiduciary ownership of the real estate or movable property, including their repossession with a view to decreasing or fully settling the Bank's receivables. The Bank does not use repossessed assets for business purposes.

In the case of risk-sharing models, collateral is created by commercial banks depending on the type of the model:

- in accordance with their own internal documents and good banking practices, and, consequently, HBOR's documents and collateral ratios prescribed in them do not apply,
- or collateral is created by commercial banks and HBOR for their respective shares in the loan in accordance with their own documents, decisions and/or procedures,
- for liquidity loans to entrepreneurs that have been strongly affected by the crisis caused by the coronavirus pandemic, the same instruments taken by the bank have been accepted as collateral provided that the collateral covers at least 50% of the loan.

#### Write-offs

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

	Group		Bank	
	Highest exposure	Highest exposure	Highest exposure	Highest exposure
	31 March 2022 HRK '000	31 December 2021 HRK '000	31 March 2022 HRK '000	31 December 2021 HRK '000
<b>Assets</b>				
Cash on hand and current accounts with banks	1,577,567	1,961,985	1,571,205	1,958,619
Deposits with other banks	15,215	7,500	15,215	7,500
Loans to financial institutions	6,941,960	7,050,143	6,941,960	7,050,143
Loans to other customers	15,726,433	15,964,376	15,726,433	15,964,376
Financial assets at fair value through profit or loss	25,652	16,375	25,652	16,375
Financial assets at fair value through other comprehensive income	3,205,647	2,929,514	3,152,504	2,872,688
Other assets	5,837	7,311	3,008	4,699
<b>Total</b>	<b>27,498,311</b>	<b>27,937,204</b>	<b>27,435,977</b>	<b>27,874,400</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	146,049	140,113	146,049	140,113
Issued guarantees in foreign currency	195,102	260,705	195,102	260,705
Undrawn loans	3,184,386	3,457,291	3,184,386	3,457,291
<b>Total</b>	<b>3,525,537</b>	<b>3,858,109</b>	<b>3,525,537</b>	<b>3,858,109</b>
<b>Total credit risk exposure</b>	<b>31,023,848</b>	<b>31,795,313</b>	<b>30,961,514</b>	<b>31,732,509</b>

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Group	Republic of Croatia	EU countries	Other countries	Total
31 March 2022	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>				
Cash on hand and current accounts with banks	1,196,975	54,147	326,445	1,577,567
Deposits with other banks	-	15,215	-	15,215
Loans to financial institutions	6,941,960	-	-	6,941,960
Loans to other customers	15,624,161	-	102,272	15,726,433
Financial assets at fair value through profit or loss	25,652	-	-	25,652
Financial assets at fair value through other comprehensive income	3,204,143	1,504	-	3,205,647
Other assets	4,455	163	1,219	5,837
<b>Total</b>	<b>26,997,346</b>	<b>71,029</b>	<b>429,936</b>	<b>27,498,311</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	146,049	-	-	146,049
Issued guarantees in foreign currency	195,102	-	-	195,102
Undrawn loans	3,182,673	-	1,713	3,184,386
<b>Total</b>	<b>3,523,824</b>	<b>-</b>	<b>1,713</b>	<b>3,525,537</b>
<b>Total credit risk exposure</b>	<b>30,521,170</b>	<b>71,029</b>	<b>431,649</b>	<b>31,023,848</b>

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

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

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

Group	Republic of Croatia	EU countries	Other countries	Total
31 December 2021	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>				
Cash on hand and current accounts with banks	1,881,083	25,319	55,583	1,961,985
Deposits with other banks	-	7,500	-	7,500
Loans to financial institutions	7,050,143	-	-	7,050,143
Loans to other customers	15,681,740	-	282,636	15,964,376
Financial assets at fair value through profit or loss	16,375	-	-	16,375
Financial assets at fair value through other comprehensive income	2,928,045	1,469	-	2,929,514
Other assets	6,430	254	627	7,311
<b>Total</b>	<b>27,563,816</b>	<b>34,542</b>	<b>338,846</b>	<b>27,937,204</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	140,113	-	-	140,113
Issued guarantees in foreign currency	260,705	-	-	260,705
Undrawn loans	3,454,685	-	2,606	3,457,291
<b>Total</b>	<b>3,855,503</b>	<b>-</b>	<b>2,606</b>	<b>3,858,109</b>
<b>Total credit risk exposure</b>	<b>31,419,319</b>	<b>34,542</b>	<b>341,452</b>	<b>31,795,313</b>

21

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Bank 31 March 2022	Republic of Croatia HRK '000	EU countries HRK '000	Other countries HRK '000	Total HRK '000
<b>Assets</b>				
Cash on hand and current accounts with banks	1,190,612	54,147	326,446	1,571,205
Deposits with other banks	-	15,215	-	15,215
Loans to financial institutions	6,941,960	-	-	6,941,960
Loans to other customers	15,624,161	-	102,272	15,726,433
Financial assets at fair value through profit or loss	25,652	-	-	25,652
Financial assets at fair value through other comprehensive income	3,151,000	1,504	-	3,152,504
Other assets	2,993	13	2	3,008
<b>Total</b>	<b>26,936,378</b>	<b>70,879</b>	<b>428,720</b>	<b>27,435,977</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	146,049	-	-	146,049
Issued guarantees in foreign currency	195,102	-	-	195,102
Undrawn loans	3,182,673	-	1,713	3,184,386
<b>Total</b>	<b>3,523,824</b>	<b>-</b>	<b>1,713</b>	<b>3,525,537</b>
<b>Total credit risk exposure</b>	<b>30,460,202</b>	<b>70,879</b>	<b>430,433</b>	<b>30,961,514</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

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

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

Bank	Republic of Croatia	EU countries	Other countries	Total
31 December 2021	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>				
Cash on hand and current accounts with banks	1,877,717	25,319	55,583	1,958,619
Deposits with other banks	-	7,500	-	7,500
Loans to financial institutions	7,050,143	-	-	7,050,143
Loans to other customers	15,681,740	-	282,636	15,964,376
Financial assets at fair value through profit or loss	16,375	-	-	16,375
Financial assets at fair value through other comprehensive income	2,871,219	1,469	-	2,872,688
Other assets	4,699	-	-	4,699
<b>Total</b>	<b>27,501,893</b>	<b>34,288</b>	<b>338,219</b>	<b>27,874,400</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	140,113	-	-	140,113
Issued guarantees in foreign currency	260,705	-	-	260,705
Undrawn loans	3,454,685	-	2,606	3,457,291
<b>Total</b>	<b>3,855,503</b>	<b>-</b>	<b>2,606</b>	<b>3,858,109</b>
<b>Total credit risk exposure</b>	<b>31,357,396</b>	<b>34,288</b>	<b>340,825</b>	<b>31,732,509</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Group	Highest exposure	Highest exposure after the effect of mitigation through collateral received	Highest exposure	Highest exposure after the effect of mitigation through collateral received
	31 March	31 March	31 December	31 December
	2022	2022	2021	2021
	HRK '000	HRK '000	HRK '000	HRK '000
Financial intermediation and insurance	10,333,420	-	10,805,364	-
Water and electric supply and other infrastructure	1,918,226	961,655	1,925,271	973,895
Tourism	3,779,757	769,978	3,648,347	657,484
Transport, warehousing and connections	2,473,316	488,679	2,496,070	481,157
Shipbuilding	1,095,333	52,597	1,481,871	88,546
Agriculture and fishery	566,046	148,810	596,042	164,847
Food industry	906,412	188,884	966,929	192,536
Construction industry	2,847,281	118,034	2,836,586	124,601
Other industry	691,324	180,747	730,574	240,299
Public administration	3,193,461	3,190,089	2,918,243	2,914,897
Education	32,305	30,130	32,142	29,789
Manufacture of basic metals and fabricated metal products, except machinery and equipment	273,911	56,385	281,395	46,890
Manufacture of chemicals and chemical products	82,467	23,611	86,151	22,533
Manufacture of other non-metallic mineral products	165,557	132,663	171,322	126,355
Pharmaceutical industry	409,730	372,545	416,205	379,399
Manufacture of motor vehicles, trailers and semi-trailers	264,573	17,033	266,004	17,411
Other	1,990,729	189,681	2,136,797	291,527
<b>Total credit risk exposure</b>	<b>31,023,848</b>	<b>6,921,521</b>	<b>31,795,313</b>	<b>6,752,166</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Bank	Highest exposure	Highest exposure after the effect of mitigation through collateral received	Highest exposure	Highest exposure after the effect of mitigation through collateral received
	31 March 2022 HRK '000	31 March 2022 HRK '000	31 December 2021 HRK '000	31 December 2021 HRK '000
Financial intermediation and insurance	10,325,691	-	10,801,196	-
Water and electric supply and other infrastructure	1,918,226	961,655	1,925,271	973,895
Tourism	3,779,756	769,978	3,648,347	657,484
Transport, warehousing and connections	2,473,288	488,651	2,495,987	481,074
Shipbuilding	1,095,333	52,597	1,481,871	88,546
Agriculture and fishery	565,953	148,717	595,896	164,701
Food industry	906,355	188,827	966,803	192,409
Construction industry	2,846,904	117,657	2,836,306	124,321
Other industry	690,816	180,238	730,311	240,036
Public administration	3,142,675	3,139,304	2,863,812	2,860,466
Education	32,305	30,130	32,142	29,789
Manufacture of basic metals and fabricated metal products, except machinery and equipment	273,867	56,341	281,312	46,808
Manufacture of chemicals and chemical products	82,467	23,611	86,151	22,533
Manufacture of other non-metallic mineral products	165,557	132,663	171,322	126,355
Pharmaceutical industry	408,455	371,270	414,615	377,809
Manufacture of motor vehicles, trailers and semi-trailers	264,573	17,033	266,004	17,411
Other	1,989,293	188,245	2,135,163	289,893
<b>Total credit risk exposure</b>	<b>30,961,514</b>	<b>6,866,917</b>	<b>31,732,509</b>	<b>6,693,530</b>

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

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

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

### 23. Risk management (continued)

#### 23.3. Credit risk (continued)

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

The fair value of collateral for the Group as of 31 March 2022 amounted to HRK 24,102,327 thousand (31 December 2021: HRK 25,043,147 thousand) and for the Bank HRK 24,094,597 thousand (31 December 2021: HRK 25,038,979 thousand).

Net highest exposure as at 31 March 2022 for the Group amounted to HRK 6,921,521 thousand (31 December 2021: HRK 6,752,166 thousand) and for the Bank HRK 6,866,917 thousand (31 December 2021: HRK 6,693,530 thousand).

In the total net highest exposure after the effect of mitigation through collateral received as of 31 March 2022, the credit risk of HRK 4,637,319 thousand for the Group (31 December 2021: HRK 4,361,928 thousand) and HRK 4,586,583 thousand for the Bank (31 December 2021: HRK 4,307,497 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 468,481 thousand (31 December 2021: HRK 478,914 thousand), from local (regional) authorities of HRK 793,628 thousand (31 December 2021: HRK 777,947 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 174,109 thousand (31 December 2021: HRK 180,112 thousand), government funds of HRK 13 thousand (31 December 2021: HRK 12 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 3,201,089 thousand for the Group and HRK 3,150,353 thousand for the Bank (31 December 2021: HRK 2,924,943 thousand for the Group and HRK 2,870,512 thousand for the Bank).

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

Financial intermediation includes mainly commercial bank.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

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

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

Group							Net exposure of portfolio after the effect of mitigation through collateral received	Net exposure of portfolio after the effect of mitigation through collateral received	Net exposure of portfolio after the effect of mitigation through collateral received	Net exposure of portfolio after the effect of mitigation through collateral received	Not subject to IFRS 9 after the effect of mitigation through collateral received	Net exposure of total portfolio after the effect of mitigation through collateral received
31 March 2022	Net exposure of portfolio - risk Stage 1	Net exposure of portfolio - risk Stage 2	Net exposure of portfolio - risk Stage 3	Net exposure of portfolio of risk POCI	Not subject to IFRS 9	Net exposure of total portfolio	Stage 1	Stage 2	Stage 3	POCI	HRK '000	HRK '000
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>												
Cash on hand and current accounts with banks	1,577,567	-	-	-	-	1,577,567	-	-	-	-	-	-
Deposits with other banks	15,215	-	-	-	-	15,215	-	-	-	-	-	-
Loans to financial institutions	6,757,593	180,815	3,552	-	-	6,941,960	-	-	-	-	-	-
Loans to other customers	12,898,940	886,042	945,468	995,983	-	15,726,433	2,859,924	99,932	179,494	42,639	-	3,181,989
Financial assets at fair value through profit or loss	-	-	-	-	25,652	25,652	-	-	-	-	25,374	25,374
Financial assets at fair value through other comprehensive income	3,204,143	-	1,504	-	-	3,205,647	3,204,142	-	1,504	-	-	3,205,646
Other assets	4,913	3	861	60	-	5,837	1,800	2	689	60	-	2,551
<b>Total</b>	<b>24,458,371</b>	<b>1,066,860</b>	<b>951,385</b>	<b>996,043</b>	<b>25,652</b>	<b>27,498,311</b>	<b>6,065,866</b>	<b>99,934</b>	<b>181,687</b>	<b>42,699</b>	<b>25,374</b>	<b>6,415,560</b>
<b>Guarantees and commitments</b>												
Guarantees issued in HRK	73,868	22,713	49,468	-	-	146,049	32,827	22,713	24,268	-	-	79,808
Issued guarantees in foreign currency	64,636	380	130,085	-	-	195,102	51,631	-	56,348	-	-	107,979
Undrawn loans	2,949,500	177,905	-	56,981	-	3,184,386	242,306	75,078	-	790	-	318,174
<b>Total</b>	<b>3,088,004</b>	<b>200,998</b>	<b>179,554</b>	<b>56,981</b>	<b>-</b>	<b>3,525,537</b>	<b>326,764</b>	<b>97,791</b>	<b>80,616</b>	<b>790</b>	<b>-</b>	<b>505,961</b>
<b>Total credit risk exposure</b>	<b>27,546,375</b>	<b>1,267,858</b>	<b>1,130,939</b>	<b>1,053,024</b>	<b>25,652</b>	<b>31,023,848</b>	<b>6,392,630</b>	<b>197,725</b>	<b>262,303</b>	<b>43,489</b>	<b>25,374</b>	<b>6,921,521</b>

76

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

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

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

Group							Net exposure of portfolio after the effect of mitigation through collateral received Stage 1	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3	Net exposure of portfolio after the effect of mitigation through collateral received POCI	Not subject to IFRS 9 after the effect of mitigation through collateral received	Net exposure of total portfolio after the effect of mitigation through collateral received
31 December 2021	Net exposure of portfolio - risk Stage 1	Net exposure of portfolio - risk Stage 2	Net exposure of portfolio - risk Stage 3	Net exposure of portfolio of risk POCI	Not subject to IFRS 9	Net exposure of total portfolio	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>												
Cash on hand and current accounts with banks	1,961,985	-	-	-	-	1,961,985	-	-	-	-	-	-
Deposits with other banks	7,500	-	-	-	-	7,500	-	-	-	-	-	-
Loans to financial institutions	6,865,821	180,760	3,562	-	-	7,050,143	-	-	-	-	-	-
Loans to other customers	12,779,081	827,965	1,163,771	1,193,559	-	15,964,376	2,855,314	92,792	205,605	34,769	-	3,188,480
Financial assets at fair value through profit or loss	-	-	-	-	16,375	16,375	-	-	-	-	16,375	16,375
Financial assets at fair value through other comprehensive income	2,928,045	-	1,469	-	-	2,929,514	2,928,045	-	1,469	-	-	2,929,514
Other assets	5,938	12	1,310	51	-	7,311	2,398	12	749	51	-	3,210
<b>Total</b>	<b>24,548,370</b>	<b>1,008,737</b>	<b>1,170,112</b>	<b>1,193,610</b>	<b>16,375</b>	<b>27,937,204</b>	<b>5,785,757</b>	<b>92,804</b>	<b>207,823</b>	<b>34,820</b>	<b>16,375</b>	<b>6,137,579</b>
<b>Guarantees and commitments</b>												
Guarantees issued in HRK	71,262	22,713	46,138	-	-	140,113	30,516	18,957	20,938	-	-	70,411
Issued guarantees in foreign currency	62,694	377	197,634	-	-	260,705	49,764	-	71,433	-	-	121,197
Undrawn loans	3,167,285	253,401	-	36,605	-	3,457,291	282,102	140,095	-	782	-	422,979
<b>Total</b>	<b>3,301,241</b>	<b>276,491</b>	<b>243,772</b>	<b>36,605</b>	<b>-</b>	<b>3,858,109</b>	<b>362,382</b>	<b>159,052</b>	<b>92,371</b>	<b>782</b>	<b>-</b>	<b>614,587</b>
<b>Total credit risk exposure</b>	<b>27,849,611</b>	<b>1,285,228</b>	<b>1,413,884</b>	<b>1,230,215</b>	<b>16,375</b>	<b>31,795,313</b>	<b>6,148,139</b>	<b>251,856</b>	<b>300,194</b>	<b>35,602</b>	<b>16,375</b>	<b>6,752,166</b>

26

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

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

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

Bank							Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000	Not subject to IFRS 9 after the effect of mitigation through collateral received HRK '000	Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000
31 March 2022	Net exposure of portfolio - risk Stage 1 HRK '000	Net exposure of portfolio - risk Stage 2 HRK '000	Net exposure of portfolio - risk Stage 3 HRK '000	Net exposure of portfolio of risk POCI HRK '000	Not subject to IFRS 9 HRK '000	Net exposure of total portfolio HRK '000						
<b>Assets</b>												
Cash on hand and current accounts with banks	1,571,205	-	-	-	-	1,571,205	-	-	-	-	-	-
Deposits with other banks	15,215	-	-	-	-	15,215	-	-	-	-	-	-
Loans to financial institutions	6,757,593	180,815	3,552	-	-	6,941,960	-	-	-	-	-	-
Loans to other customers	12,898,940	886,042	945,468	995,983	-	15,726,433	2,859,924	99,932	179,494	42,639	-	3,181,989
Financial assets at fair value through profit or loss	-	-	-	-	25,652	25,652	-	-	-	-	25,374	25,374
Financial assets at fair value through other comprehensive income	3,151,000	-	1,504	-	-	3,152,504	3,151,000	-	1,504	-	-	3,152,504
Other assets	2,084	3	861	60	-	3,008	338	2	689	60	-	1,089
<b>Total</b>	<b>24,396,037</b>	<b>1,066,860</b>	<b>951,385</b>	<b>996,043</b>	<b>25,652</b>	<b>27,435,977</b>	<b>6,011,262</b>	<b>99,934</b>	<b>181,687</b>	<b>42,699</b>	<b>25,374</b>	<b>6,360,956</b>
<b>Guarantees and commitments</b>												
Guarantees issued in HRK	79,858	22,713	49,468	-	-	146,049	32,827	22,713	24,268	-	-	79,808
Issued guarantees in foreign currency	64,636	380	130,086	-	-	195,102	51,631	-	56,348	-	-	107,979
Undrawn loans	2,949,500	177,905	-	56,981	-	3,184,386	242,306	75,078	-	790	-	318,174
<b>Total</b>	<b>3,088,004</b>	<b>200,998</b>	<b>179,554</b>	<b>56,981</b>	<b>-</b>	<b>3,525,537</b>	<b>326,764</b>	<b>97,791</b>	<b>80,616</b>	<b>790</b>	<b>-</b>	<b>505,961</b>
<b>Total credit risk exposure</b>	<b>27,484,041</b>	<b>1,267,858</b>	<b>1,130,939</b>	<b>1,053,024</b>	<b>25,652</b>	<b>30,961,514</b>	<b>6,338,026</b>	<b>197,725</b>	<b>262,303</b>	<b>43,489</b>	<b>25,374</b>	<b>6,866,917</b>

21

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

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

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

Bank						Net exposure of portfolio after the effect of mitigation through collateral received	Net exposure of portfolio after the effect of mitigation through collateral received	Net exposure of portfolio after the effect of mitigation through collateral received	Net exposure of portfolio after the effect of mitigation through collateral received	Not subject to IFRS 9 after the effect of mitigation through collateral received	Net exposure of total portfolio after the effect of mitigation through collateral received	
	Net exposure of portfolio - risk Stage 1	Net exposure of portfolio - risk Stage 2	Net exposure of portfolio - risk Stage 3	Net exposure of portfolio of risk POCI	Not subject to IFRS 9	Net exposure of portfolio total	Net exposure of portfolio after the effect of mitigation through collateral received	Net exposure of portfolio after the effect of mitigation through collateral received	Net exposure of portfolio after the effect of mitigation through collateral received	Net exposure of portfolio after the effect of mitigation through collateral received	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	
<b>31 December 2021</b>												
<b>Assets</b>												
Cash on hand and current accounts with banks	1,958,619	-	-	-	-	1,958,619	-	-	-	-	-	
Deposits with other banks	7,500	-	-	-	-	7,500	-	-	-	-	-	
Loans to financial institutions	6,865,821	180,760	3,562	-	-	7,050,143	-	-	-	-	-	
Loans to other customers	12,779,081	827,965	1,163,771	1,193,559	-	15,964,376	2,855,314	92,792	205,605	34,769	3,188,480	
Financial assets at fair value through profit or loss	-	-	-	-	16,375	16,375	-	-	-	-	16,375	
Financial assets at fair value through other comprehensive income	2,871,219	-	1,469	-	-	2,872,688	2,871,219	-	1,469	-	2,872,688	
Other assets	3,326	12	1,310	51	-	4,699	588	12	749	51	1,400	
<b>Total</b>	<b>24,485,566</b>	<b>1,008,737</b>	<b>1,170,112</b>	<b>1,193,610</b>	<b>16,375</b>	<b>27,874,400</b>	<b>5,727,121</b>	<b>92,804</b>	<b>207,823</b>	<b>34,820</b>	<b>16,375</b>	<b>6,078,943</b>
<b>Guarantees and commitments</b>												
Guarantees issued in HRK	71,262	22,713	46,138	-	-	140,113	30,516	18,957	20,938	-	-	70,411
Issued guarantees in foreign currency	62,694	377	197,634	-	-	260,705	49,764	-	71,433	-	-	121,197
Undrawn loans	3,167,285	253,401	-	36,605	-	3,457,291	282,102	140,095	-	782	-	422,979
<b>Total</b>	<b>3,301,241</b>	<b>276,491</b>	<b>243,772</b>	<b>36,605</b>	<b>-</b>	<b>3,858,109</b>	<b>362,382</b>	<b>159,052</b>	<b>92,371</b>	<b>782</b>	<b>-</b>	<b>614,587</b>
<b>Total credit risk exposure</b>	<b>27,786,807</b>	<b>1,285,228</b>	<b>1,413,884</b>	<b>1,230,215</b>	<b>16,375</b>	<b>31,732,509</b>	<b>6,089,503</b>	<b>251,856</b>	<b>300,194</b>	<b>35,602</b>	<b>16,375</b>	<b>6,693,530</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

---

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

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

As at 31 March 2022 in the total net highest exposure of the Group and the Bank after the effect of mitigation through collateral received, the amount of loans to other customers of HRK 1,436,067 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 468,330 thousand, local and regional authorities of HRK 793,628 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 174,109 thousand.

As at 31 March 2022 the amount of financial assets at fair value through other comprehensive income is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 3,201,089 thousand for the Group and HRK 3,150,353 thousand for the Bank.

As at 31 March 2022 other assets of HRK 163 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

As at 31 December 2021 in the total net highest exposure of the Group and the Bank after the effect of mitigation through collateral received, the amount of loans to other customers of HRK 1,436,818 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 478,759 thousand, local and regional authorities of HRK 777,947 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 180,112 thousand.

As at 31 December 2021 the amount of financial assets at fair value through other comprehensive income is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 2,924,943 thousand for the Group and HRK 2,870,512 thousand for the Bank.

As at 31 December 2021 other assets of HRK 167 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

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

Cash on hand and current accounts with banks

Group 31 March 2022	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2022	1,809	-	-	-	1,809
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release) of loss allowance	(547)	-	-	-	(547)
Net foreign exchange gain/loss on loss allowances	-	-	-	-	-
<b>Balance at 31 March 2022</b>	<b>1,262</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,262</b>

Group 31 December 2021	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	1,652	-	-	-	1,652
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	156	-	-	-	156
Net foreign exchange gain/loss on loss allowances	1	-	-	-	1
<b>Balance at 31 December 2021</b>	<b>1,809</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,809</b>

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances (continued)

Cash on hand and current accounts with banks (continued)

Bank	Stage 1	Stage 2	Stage 3	POCI	Total
31 March 2022	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2022	1,804	-	-	-	1,804
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release) of loss allowance	(549)	-	-	-	(549)
Net foreign exchange gain/loss on loss allowances	-	-	-	-	-
<b>Balance at 31 March 2022</b>	<b>1,255</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,255</b>

Bank	Stage 1	Stage 2	Stage 3	POCI	Total
31 December 2021	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2021	1,643	-	-	-	1,643
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	160	-	-	-	160
Net foreign exchange gain/loss on loss allowances	1	-	-	-	1
<b>Balance at 31 December 2021</b>	<b>1,804</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,804</b>

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

*i. Allowances (continued)*

**Deposits with other banks**

**Group and Bank**

<b>31 March 2022</b>	<b>Stage 1 HRK '000</b>	<b>Stage 2 HRK '000</b>	<b>Stage 3 HRK '000</b>	<b>POCI HRK '000</b>	<b>Total HRK '000</b>
Balance at 1 January 2022	1	-	-	-	1
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release) of loss allowance	(1)	-	-	-	(1)
Net foreign exchange gain/loss on loss allowances	2	-	-	-	2
<b>Balance at 31 March 2022</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>

**Group and Bank**

<b>31 December 2021</b>	<b>Stage 1 HRK '000</b>	<b>Stage 2 HRK '000</b>	<b>Stage 3 HRK '000</b>	<b>POCI HRK '000</b>	<b>Total HRK '000</b>
Balance at 1 January 2021	1	-	-	-	1
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release) of loss allowance	(1)	-	-	-	(1)
Net foreign exchange gain/loss on loss allowances	1	-	-	-	1
<b>Balance at 31 December 2021</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances (continued)

Loans to financial institutions

Group and Bank

31 March 2022

	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2022	29,554	23,184	6,162	-	58,900
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release) of loss allowance	(1,018)	(78)	(9)	-	(1,105)
Unwind – changes due to the lapse of time	-	-	-	-	-
Loss allowances transferred from/to loans to other customers	-	-	-	-	-
Net foreign exchange gain/loss on loss allowances	91	88	6	-	185
<b>Balance at 31 March 2022</b>	<b>28,627</b>	<b>23,194</b>	<b>6,159</b>	<b>-</b>	<b>57,980</b>

Group and Bank

31 December 2021

	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	36,795	35,435	10,567	-	82,797
Transfer to Stage 1	1,730	(17)	(1,713)	-	-
Transfer to Stage 2	(64)	64	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release) of loss allowance	(8,809)	(12,240)	(2,649)	-	(23,698)
Unwind – changes due to the lapse of time	(45)	-	(41)	-	(86)
Loss allowances transferred to loans to other customers	-	(16)	-	-	(16)
Net foreign exchange gain/loss on loss allowances	(53)	(42)	(2)	-	(97)
<b>Balance at 31 December 2021</b>	<b>29,554</b>	<b>23,184</b>	<b>6,162</b>	<b>-</b>	<b>58,900</b>

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances (continued)

Loans to other customers

Group and Bank 31 March 2022	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2022	381,609	555,807	2,099,064	219,436	3,255,916
Transfer to Stage 1	153,233	(15,495)	(137,738)	-	-
Transfer to Stage 2	(2,963)	2,963	-	-	-
Transfer to Stage 3	(13)	(14,025)	2,833	11,205	-
Net (release)/increase of loss allowance	(149,085)	19,140	49,713	(40,768)	(121,000)
Write-offs	-	-	(18,174)	-	(18,174)
Unwind – changes due to the lapse of time	(7,527)	(1)	(1,008)	4,220	(4,316)
Loss allowances transferred to/from loans to financial institutions	-	-	-	-	-
Acquisition of immovable property	-	-	-	-	-
Other	-	-	-	19,207	19,207
Net foreign exchange gain/loss on loss allowances	4,443	3,266	6,755	(104)	14,360
<b>Balance at 31 March 2022</b>	<b>379,697</b>	<b>551,655</b>	<b>2,001,445</b>	<b>213,196</b>	<b>3,145,993</b>

Group and Bank 31 December 2021	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	353,077	517,219	2,422,493	182,941	3,475,730
Transfer to Stage 1	379,435	(310,274)	(69,161)	-	-
Transfer to Stage 2	(38,794)	46,782	(7,988)	-	-
Transfer to Stage 3	(268)	(50,314)	40,135	10,447	-
Net increase/(release) of loss allowance	(276,372)	353,926	53,002	(52,432)	78,124
Write-offs	(33,698)	-	(272,492)	-	(306,190)
Unwind – changes due to the lapse of time	(1,574)	(1,131)	7,575	20,217	25,087
Loss allowances transferred from loans to financial institutions	-	16	-	-	16
Acquisition of immovable property	-	-	(737)	-	(737)
Derecognition due to reduction to fair value	-	-	(84,977)	36,958	(48,019)
Other	-	-	-	21,427	21,427
Net foreign exchange gain/loss on loss allowances	(197)	(417)	11,214	(122)	10,478
<b>Balance at 31 December 2021</b>	<b>381,609</b>	<b>555,807</b>	<b>2,099,064</b>	<b>219,436</b>	<b>3,255,916</b>

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances (continued)

Financial assets at fair value through other comprehensive income

Group 31 March 2022	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2022	2,814	-	1,731	-	4,545
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	287	-	41	-	328
Net foreign exchange gain/loss on loss allowances	6	-	14	-	20
<b>Balance at 31 March 2022</b>	<b>3,107</b>	<b>-</b>	<b>1,786</b>	<b>-</b>	<b>4,893</b>

Group 31 December 2021	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	2,935	-	1,647	-	4,582
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase/(release) of loss allowance	(118)	-	89	-	(29)
Net foreign exchange gain/loss on loss allowances	(3)	-	(5)	-	(8)
<b>Balance at 31 December 2021</b>	<b>2,814</b>	<b>-</b>	<b>1,731</b>	<b>-</b>	<b>4,545</b>

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances (continued)

Financial assets at fair value through other comprehensive income

Bank 31 March 2022	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2022	2,724	-	1,731	-	4,455
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	279	-	41	-	320
Net foreign exchange gain/loss on loss allowances	6	-	14	-	20
<b>Balance at 31 March 2022</b>	<b>3,009</b>	<b>-</b>	<b>1,786</b>	<b>-</b>	<b>4,795</b>

Bank 31 December 2021	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	2,852	-	1,647	-	4,499
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release)/increase of loss allowance	(125)	-	89	-	(36)
Net foreign exchange gain/loss on loss allowances	(3)	-	(5)	-	(8)
<b>Balance at 31 December 2021</b>	<b>2,724</b>	<b>-</b>	<b>1,731</b>	<b>-</b>	<b>4,455</b>

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances (continued)

Other assets

Group 31 March 2022	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2022	179	4	31,418	250	31,851
Transfer to Stage 1	10	-	(10)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase/(release) of loss allowance	10	(3)	2,113	(8)	2,112
Write-offs	-	-	(27)	-	(27)
Foreclosed assets	-	-	-	-	-
Net foreign exchange gain on loss allowances	-	-	5	-	5
Other adjustments	26	-	-	8	34
<b>Balance at 31 March 2022</b>	<b>225</b>	<b>1</b>	<b>33,499</b>	<b>250</b>	<b>33,975</b>

Group 31 December 2021	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	171	1	34,359	5	34,536
Transfer to Stage 1	10	(2)	(8)	-	-
Transfer to Stage 2	(4)	4	-	-	-
Transfer to Stage 3	-	(1)	1	-	-
Net (release)/increase of loss allowance	(3)	2	(2,786)	245	(2,542)
Write-offs	(12)	-	(151)	-	(163)
Net foreign exchange gain/loss on loss allowances	-	-	3	-	3
Other adjustments	17	-	-	-	17
<b>Balance at 31 December 2021</b>	<b>179</b>	<b>4</b>	<b>31,418</b>	<b>250</b>	<b>31,851</b>

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.3. Credit risk (continued)**

*i. Allowances (continued)*

**Other assets**

<b>Bank</b>					
<b>31 March 2022</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	<b>Total</b>
	<b>HRK '000</b>				
Balance at 1 January 2022	25	4	31,418	250	31,697
Transfer to Stage 1	10	-	(10)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net /(release)/increase of loss allowance	(21)	(3)	2,113	(8)	2,081
Write-offs	-	-	(27)	-	(27)
Foreclosed assets	-	-	-	-	-
Net foreign exchange gain on loss allowances	-	-	5	-	5
Other adjustments	-	-	-	8	8
<b>Balance at 31 March 2022</b>	<b>14</b>	<b>1</b>	<b>33,499</b>	<b>250</b>	<b>33,764</b>

<b>Bank</b>					
<b>31 December 2021</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	<b>Total</b>
	<b>HRK '000</b>				
Balance at 1 January 2021	31	1	34,359	5	34,396
Transfer to Stage 1	10	(2)	(8)	-	-
Transfer to Stage 2	(4)	4	-	-	-
Transfer to Stage 3	-	(1)	1	-	-
Net (release)/increase of loss allowance	(12)	2	(2,786)	245	(2,551)
Write-offs	-	-	(151)	-	(151)
Net foreign exchange gain/loss on loss allowances	-	-	3	-	3
<b>Balance at 31 December 2021</b>	<b>25</b>	<b>4</b>	<b>31,418</b>	<b>250</b>	<b>31,697</b>

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances (continued)

Guarantees and commitments

Group and Bank 31 March 2022	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2022	10,652	26,256	82,779	9,900	129,587
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release) of loss allowance	(1,202)	(18,767)	(26,293)	(313)	(46,575)
Net foreign exchange (gain)/loss on loss allowances	40	133	1,088	74	1,335
<b>Balance at 31 March 2022</b>	<b>9,490</b>	<b>7,622</b>	<b>57,574</b>	<b>9,661</b>	<b>84,347</b>

Group and Bank 31 December 2021	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2021	8,659	11,523	17,525	7,849	45,556
Transfer to Stage 1	5,309	(5,309)	-	-	-
Transfer to Stage 2	(261)	261	-	-	-
Transfer to Stage 3	-	(1)	1	-	-
Net (release)/increase of loss allowance	(2,968)	19,778	63,447	2,045	82,302
Net foreign exchange gain/loss on loss allowances	(87)	4	1,806	6	1,729
<b>Balance at 31 December 2021</b>	<b>10,652</b>	<b>26,256</b>	<b>82,779</b>	<b>9,900</b>	<b>129,587</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.4. Liquidity risk**

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 31 March 2022 and 31 December 2021 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

Group 31 March 2022	Up to 1 month HRK '000	1 to 3 months HRK '000	3 months to 1 year HRK '000	1 to 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
<b>Assets</b>						
Cash on hand and current accounts with banks	1,577,568	-	-	-	-	1,577,568
Deposits with other banks	-	-	-	-	15,215	15,215
Loans to financial institutions*	65,356	333,310	771,025	1,843,679	3,928,590	6,941,960
Loans to other customers	1,491,455	414,452	1,193,025	3,319,865	9,307,636	15,726,433
Financial assets at fair value through profit or loss	103,892	-	-	-	25,652	129,544
Financial assets at fair value through other comprehensive income	3,236,712	12,118	173	-	-	3,249,003
Property, plant and equipment and intangible assets	-	-	-	-	43,623	43,623
Foreclosed assets	-	156	78	11,558	13,204	24,996
Other assets	5,963	2,459	23,902	4,143	6,532	42,999
<b>Total assets</b>	<b>6,480,946</b>	<b>762,495</b>	<b>1,988,203</b>	<b>5,179,245</b>	<b>13,340,452</b>	<b>27,751,341</b>
<b>Liabilities</b>						
Deposits from customers	280,893	40,169	88,869	112,341	85,265	607,537
Borrowings	156,365	574,811	1,713,818	5,691,542	7,692,087	15,828,623
Provisions for guarantees, commitments and other liabilities	76,091	5,261	15,528	24,605	23,420	144,905
Other liabilities	195,181	17,863	46,842	73,898	58,203	391,987
<b>Total liabilities</b>	<b>708,530</b>	<b>638,104</b>	<b>1,865,057</b>	<b>5,902,386</b>	<b>7,858,975</b>	<b>16,973,052</b>
<b>Liquidity gap</b>	<b>5,772,416</b>	<b>124,391</b>	<b>123,146</b>	<b>(723,141)</b>	<b>5,481,477</b>	<b>10,778,289</b>
<b>Guarantees and commitments</b>						
Guarantees Issued In HRK	177,235	-	-	-	-	177,235
Issued guarantees in foreign currency	233,664	-	-	-	-	233,664
Undrawn loans	3,198,985	-	-	-	-	3,198,985
EIF – subscribed, not called up capital	78,798	-	-	-	-	78,798
EIF CROGIP Contracted Liability	-	12,000	75,590	107,175	120,198	314,963
EIF FRC2 Contracted Liability	463	750	1,640	1,239	1,091	5,183
<b>Total guarantees and commitments</b>	<b>3,689,145</b>	<b>12,750</b>	<b>77,230</b>	<b>108,414</b>	<b>121,289</b>	<b>4,008,828</b>

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

\* Receivables of HRK 23,524 thousand relate to reverse REPO agreements.

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.4. Liquidity risk (continued)

Group 31 December 2021	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>						
Cash on hand and current accounts with banks	1,961,986	-	-	-	-	1,961,986
Deposits with other banks	-	-	-	-	7,500	7,500
Loans to financial institutions*	140,979	188,898	817,773	1,870,557	4,031,936	7,050,143
Loans to other customers	1,903,430	341,173	1,109,842	3,254,643	9,355,288	15,964,376
Financial assets at fair value through profit or loss	202,609	-	-	-	16,375	218,984
Financial assets at fair value through other comprehensive income	2,956,994	15,501	35	-	-	2,972,530
Property, plant and equipment and intangible assets	-	-	-	-	43,937	43,937
Foreclosed assets	9	-	156	11,272	9,932	21,369
Other assets	7,632	1,838	24,649	1,734	1,684	37,537
<b>Total assets</b>	<b>7,173,639</b>	<b>547,410</b>	<b>1,952,455</b>	<b>5,138,206</b>	<b>13,466,652</b>	<b>28,278,362</b>
<b>Liabilities</b>						
Deposits from customers	622,284	22,169	105,183	95,453	115,452	960,541
Borrowings	244,301	333,934**	1,807,992	5,777,582	7,951,428	16,115,237
Provisions for guarantees, commitments and other liabilities	105,893	5,962	20,072	30,577	28,056	190,560
Other liabilities	232,641	15,695	51,058	75,994	59,851	435,239
<b>Total liabilities</b>	<b>1,205,119</b>	<b>377,760</b>	<b>1,984,305</b>	<b>5,979,606</b>	<b>8,154,787</b>	<b>17,701,577</b>
<b>Liquidity gap</b>	<b>5,968,520</b>	<b>169,650</b>	<b>(31,850)</b>	<b>(841,400)</b>	<b>5,311,865</b>	<b>10,576,785</b>
<b>Guarantees and commitments</b>						
Guarantees issued in HRK	170,555	-	-	-	-	170,555
Issued guarantees in foreign currency	325,103	-	-	-	-	325,103
Undrawn loans	3,492,038	-	-	-	-	3,492,038
EIF – subscribed, not called up capital	78,798	-	-	-	-	78,179
EIF CROGIP Contracted Liability	-	12,616	56,771	112,664	130,438	312,489
EIF FRC2 Contracted Liability	678	532	2,393	2,171	469	6,243
<b>Total guarantees and commitments</b>	<b>4,066,553</b>	<b>13,148</b>	<b>59,164</b>	<b>114,835</b>	<b>130,907</b>	<b>4,384,607</b>

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

\* Receivables of HRK 8,239 thousand relate to reverse REPO agreements.

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

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

## 23. Risk management (continued)

### 23.4. Liquidity risk (continued)

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 31 March 2022 and 31 December 2021 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

Bank 31 March 2022	Up to 1 month HRK '000	1 to 3 months HRK '000	3 months to 1 year HRK '000	1 to 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
<b>Assets</b>						
Cash on hand and current accounts with banks	1,571,206	-	-	-	-	1,571,206
Deposits with other banks	-	-	-	-	15,215	15,215
Loans to financial institutions*	65,356	333,310	771,025	1,843,679	3,928,590	6,941,960
Loans to other customers	1,491,455	414,452	1,193,025	3,319,865	9,307,636	15,726,433
Financial assets at fair value through profit	103,892	-	-	-	25,652	129,544
Financial assets at fair value through other	3,183,907	11,953	-	-	-	3,195,860
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	42,408	42,408
Foreclosed assets	-	156	78	11,558	13,204	24,996
Other assets	4,299	1,085	23,582	4,143	5,848	38,957
<b>Total assets</b>	<b>6,420,115</b>	<b>760,956</b>	<b>1,987,710</b>	<b>5,179,245</b>	<b>13,374,677</b>	<b>27,722,703</b>
<b>Liabilities</b>						
Deposits from customers	280,893	40,169	88,869	112,341	85,265	607,537
Borrowings	156,365	574,811	1,713,818	5,691,542	7,692,087	15,828,623
Provisions for guarantees, commitments and other liabilities	76,091	5,261	15,271	24,605	23,420	144,648
Other liabilities	194,273	13,431	38,991	62,821	59,794	369,310
<b>Total liabilities</b>	<b>707,622</b>	<b>633,672</b>	<b>1,856,949</b>	<b>5,891,309</b>	<b>7,860,566</b>	<b>16,950,118</b>
<b>Liquidity gap</b>	<b>5,712,493</b>	<b>127,284</b>	<b>130,761</b>	<b>(712,064)</b>	<b>5,514,111</b>	<b>10,772,585</b>
<b>Guarantees and commitments</b>						
Guarantees issued in HRK	177,235	-	-	-	-	177,235
Issued guarantees in foreign currency	233,664	-	-	-	-	233,664
Undrawn loans	3,198,985	-	-	-	-	3,198,985
EIF – subscribed, not called up capital	78,798	-	-	-	-	78,798
EIF CROGIP Contracted Liability	-	12,000	75,590	107,175	120,198	314,963
EIF FRC2 Contracted Liability	463	750	1,640	1,239	1,091	5,183
<b>Total guarantees and commitments</b>	<b>3,689,145</b>	<b>12,750</b>	<b>77,230</b>	<b>108,414</b>	<b>121,289</b>	<b>4,008,828</b>

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

\* Receivables of HRK 23,524 thousand relate to reverse REPO agreements.

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

11

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.4. Liquidity risk (continued)

Bank 31 December 2021	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>						
Cash on hand and current accounts with banks	1,958,620	-	-	-	-	1,958,620
Deposits with other banks	-	-	-	-	7,500	7,500
Loans to financial institutions*	140,979	188,898	817,773	1,870,557	4,031,936	7,050,143
Loans to other customers	1,903,430	341,173	1,109,842	3,254,643	9,355,288	15,964,376
Financial assets at fair value through profit	202,609	-	-	-	16,375	218,984
Financial assets at fair value through other	2,900,262	15,442	-	-	-	2,915,704
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	42,674	42,674
Foreclosed assets	9	-	156	11,272	9,932	21,369
Other assets	5,749	947	24,380	1,734	1,684	34,494
<b>Total assets</b>	<b>7,111,658</b>	<b>546,460</b>	<b>1,952,151</b>	<b>5,138,206</b>	<b>13,501,513</b>	<b>28,249,988</b>
<b>Liabilities</b>						
Deposits from customers	622,284	22,169	105,183	95,453	115,452	960,541
Borrowings	244,301	333,934**	1,807,992	5,777,582	7,951,428	16,115,237
Provisions for guarantees, commitments and other liabilities	105,893	5,962	19,815	30,577	28,056	190,303
Other liabilities	231,580	13,038	43,334	66,870	61,356	416,178
<b>Total liabilities</b>	<b>1,204,058</b>	<b>375,103</b>	<b>1,976,324</b>	<b>5,970,482</b>	<b>8,156,292</b>	<b>17,682,259</b>
<b>Liquidity gap</b>	<b>5,907,600</b>	<b>171,357</b>	<b>(24,173)</b>	<b>(832,276)</b>	<b>5,345,221</b>	<b>10,567,729</b>
<b>Guarantees and commitments</b>						
Guarantees issued in HRK	170,555	-	-	-	-	170,555
Issued guarantees in foreign currency	325,103	-	-	-	-	325,103
Undrawn loans	3,492,038	-	-	-	-	3,492,038
EIF – subscribed, not called up capital	78,179	-	-	-	-	78,179
EIF CROGIP Contracted Liability	-	12,616	56,771	112,664	130,438	312,489
EIF FRC2 Contracted Liability	678	532	2,393	2,171	469	6,243
<b>Total guarantees and commitments</b>	<b>4,066,553</b>	<b>13,148</b>	<b>59,164</b>	<b>114,835</b>	<b>130,907</b>	<b>4,384,607</b>

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

\* Receivables of HRK 8,239 thousand relate to reverse REPO agreements.

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

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.4. Liquidity risk (continued)**

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

Group	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
31 March 2022	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>Financial liabilities</b>						
Deposits from customers	280,893	40,169	88,869	112,341	85,265	607,537
Borrowings	173,742	564,373	1,812,211	5,905,674	8,377,998	16,833,998
Provisions for guarantees, commitments and other liabilities	76,091	5,261	15,528	24,605	23,420	144,905
Other liabilities	195,181	17,863	46,842	73,898	58,203	391,987
<b>Total</b>	<b>725,907</b>	<b>627,666</b>	<b>1,963,450</b>	<b>6,116,518</b>	<b>8,544,886</b>	<b>17,978,427</b>
<b>Guarantees and commitments</b>						
Guarantees issued in HRK	177,235	-	-	-	-	177,235
Issued guarantees in foreign currency	233,664	-	-	-	-	233,664
Undrawn loans	3,198,985	-	-	-	-	3,198,985
EIF – subscribed, not called up capital	78,798	-	-	-	-	78,798
EIF CROGIP Contracted Liability	-	12,000	75,590	107,175	120,198	314,963
EIF FRC2 Contracted Liability	463	750	1,640	1,239	1,091	5,183
<b>Total guarantees and commitments</b>	<b>3,689,145</b>	<b>12,750</b>	<b>77,230</b>	<b>108,414</b>	<b>121,289</b>	<b>4,008,828</b>
Group	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
31 December 2021	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>Financial liabilities</b>						
Deposits from customers	627,284	22,169	105,183	95,453	115,452	960,541
Borrowings	258,366	315,326	1,927,599	5,992,204	8,623,885	17,117,380
Provisions for guarantees, commitments and other liabilities	105,893	5,962	20,072	30,577	28,056	190,560
Other liabilities	232,641	15,695	51,058	75,994	59,851	435,239
<b>Total</b>	<b>1,219,184</b>	<b>359,152</b>	<b>2,103,912</b>	<b>6,194,228</b>	<b>8,827,244</b>	<b>18,703,720</b>
<b>Guarantees and commitments</b>						
Guarantees issued in HRK	170,555	-	-	-	-	170,555
Issued guarantees in foreign currency	325,103	-	-	-	-	325,103
Undrawn loans	3,492,038	-	-	-	-	3,492,038
EIF – subscribed, not called up capital	78,179	-	-	-	-	78,179
EIF CROGIP Contracted Liability	-	12,616	56,771	112,664	130,438	312,489
EIF FRC2 Contracted Liability	678	532	2,393	2,171	469	6,243
<b>Total guarantees and commitments</b>	<b>4,066,553</b>	<b>13,148</b>	<b>59,164</b>	<b>114,835</b>	<b>130,907</b>	<b>4,384,607</b>

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.4. Liquidity risk (continued)**

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

Bank	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
31 March 2022	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>Financial liabilities</b>						
Deposits from customers	280,893	40,169	88,869	112,341	85,265	607,537
Borrowings	173,742	564,373	1,812,211	5,905,674	8,377,998	16,833,998
Provisions for guarantees, commitments and other liabilities	76,091	5,261	15,271	24,605	23,420	144,648
Other liabilities	194,273	13,431	38,991	62,821	59,794	369,310
<b>Total</b>	<b>724,999</b>	<b>623,234</b>	<b>1,955,342</b>	<b>6,105,441</b>	<b>8,546,477</b>	<b>17,955,493</b>
<b>Guarantees and commitments</b>						
Guarantees issued in HRK	177,235	-	-	-	-	177,235
Issued guarantees in foreign currency	233,664	-	-	-	-	233,664
Undrawn loans	3,198,985	-	-	-	-	3,198,985
EIF – subscribed, not called up capital	78,798	-	-	-	-	78,798
EIF CROGIP Contracted Liability	-	12,000	75,590	107,175	120,198	314,963
EIF FRC2 Contracted Liability	463	750	1,640	1,239	1,091	5,183
<b>Total guarantees and commitments</b>	<b>3,689,145</b>	<b>12,750</b>	<b>77,230</b>	<b>108,414</b>	<b>121,289</b>	<b>4,008,828</b>
<b>Bank</b>						
<b>31 December 2021</b>	<b>Up to 1 month</b>	<b>1 - 3 months</b>	<b>3 - 12 months</b>	<b>1 - 3 years</b>	<b>Over 3 years</b>	<b>Total</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
<b>Financial liabilities</b>						
Deposits from customers	622,284	22,169	105,183	95,453	115,452	960,541
Borrowings	258,366	315,326	1,927,599	5,992,204	8,623,885	17,117,380
Provisions for guarantees, commitments and other liabilities	105,893	5,962	19,815	30,577	28,056	190,303
Other liabilities	231,580	13,038	43,334	66,870	61,356	416,178
<b>Total</b>	<b>1,218,123</b>	<b>356,495</b>	<b>2,095,931</b>	<b>6,185,104</b>	<b>8,828,749</b>	<b>18,684,402</b>
<b>Guarantees and commitments</b>						
Guarantees issued in HRK	170,555	-	-	-	-	170,555
Issued guarantees in foreign currency	325,103	-	-	-	-	325,103
Undrawn loans	3,492,038	-	-	-	-	3,492,038
EIF – subscribed, not called up capital	78,179	-	-	-	-	78,179
EIF CROGIP Contracted Liability	-	12,616	56,771	112,664	130,438	312,489
EIF FRC2 Contracted Liability	678	532	2,393	2,171	469	6,243
<b>Total guarantees and commitments</b>	<b>4,066,553</b>	<b>13,148</b>	<b>59,164</b>	<b>114,835</b>	<b>130,907</b>	<b>4,384,607</b>

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.5. Market risk**

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

**23.5.1. Interest rate risk**

The following tables demonstrate the sensitivity of the Group to the interest rate risk as of 31 March 2022 and 31 December 2021 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter.

Assets and liabilities on which interest is not charged are placed into the non-interest bearing category. The tables below demonstrate the estimation of Group's interest rate risk exposure as of 31 March 2022 and 31 December 2021 which may not be indicative for the positions in other periods.

Group	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total	Fixed interest rate
31 March 2022	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>								
Cash on hand and current accounts with banks	386,955	-	-	-	-	1,190,613	1,577,568	386,955
Deposits with other banks	-	-	-	-	-	15,215	15,215	-
Loans to financial institutions	61,610	436,585	749,942	1,799,995	3,890,950	2,878	6,941,960	6,826,170
Loans to other customers	1,344,607	734,541	1,373,881	3,175,141	8,921,726	176,537	15,726,433	14,852,450
Financial assets at fair value through profit or loss	-	-	-	-	25,652	103,892	129,544	25,652
Financial assets at fair value through other comprehensive income	3,193,355	-	-	-	-	55,648	3,249,003	3,193,355
Other assets	-	-	-	-	-	42,999	42,999	-
<b>Total assets</b>	<b>4,986,527</b>	<b>1,171,126</b>	<b>2,123,823</b>	<b>4,975,136</b>	<b>12,838,328</b>	<b>1,587,782</b>	<b>27,682,722</b>	<b>25,284,582</b>
<b>Liabilities</b>								
Deposits from customers	117,423	-	-	-	-	490,114	607,537	117,423
Borrowings	156,365	544,389	1,713,818	5,689,476	7,682,788	41,787	15,828,623	15,775,471
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	144,905	144,905	-
Other liabilities	-	-	-	-	-	391,987	391,987	-
<b>Total liabilities</b>	<b>273,788</b>	<b>544,389</b>	<b>1,713,818</b>	<b>5,689,476</b>	<b>7,682,788</b>	<b>1,068,793</b>	<b>16,973,052</b>	<b>15,892,894</b>
<b>Interest rate gap</b>	<b>4,712,739</b>	<b>626,737</b>	<b>410,005</b>	<b>(714,340)</b>	<b>5,155,540</b>	<b>518,989</b>	<b>10,709,670</b>	<b>9,391,688</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.1. Interest rate risk (continued)

Group	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total	Fixed interest rate
31 December 2021	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>								
Cash on hand and current accounts with banks	84,268	-	-	-	-	1,877,718	1,961,986	84,268
Deposits with other banks	-	-	-	-	-	7,500	7,500	-
Loans to financial institutions	136,649	300,681	794,823	1,825,594	3,989,089	3,307	7,050,143	6,925,020
Loans to other customers	1,721,753	643,354	1,294,971	3,130,097	8,977,083	197,118	15,964,376	14,941,579
Financial assets at fair value through profit or loss	-	-	-	-	16,375	202,609	218,984	16,375
Financial assets at fair value through other comprehensive income	2,913,647	-	-	-	-	58,883	2,972,530	2,913,647
Other assets	-	-	-	-	-	37,537	37,537	-
<b>Total assets</b>	<b>4,856,317</b>	<b>944,035</b>	<b>2,089,794</b>	<b>4,955,691</b>	<b>12,982,547</b>	<b>2,384,672</b>	<b>28,213,056</b>	<b>24,880,889</b>
<b>Liabilities</b>								
Deposits from customers	417,163	-	-	-	-	543,378	960,541	417,163
Borrowings	244,301	310,552	1,807,992	5,775,874	7,941,861	34,657	16,115,237	16,069,304
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	190,560	190,560	-
Other liabilities	-	-	-	-	-	435,239	435,239	-
<b>Total liabilities</b>	<b>661,464</b>	<b>310,552</b>	<b>1,807,992</b>	<b>5,775,874</b>	<b>7,941,861</b>	<b>1,203,834</b>	<b>17,701,577</b>	<b>16,486,467</b>
<b>Interest rate gap</b>	<b>4,194,853</b>	<b>633,483</b>	<b>281,802</b>	<b>(820,183)</b>	<b>5,040,686</b>	<b>1,180,838</b>	<b>10,511,479</b>	<b>8,394,422</b>

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.5. Market risk (continued)**

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

The following tables demonstrate the sensitivity of the HBOR to the interest rate risk as of 31 March 2022 and 31 December 2021 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter.

Assets and liabilities on which interest is not charged are placed into the non-interest bearing category. The tables below demonstrate the estimation of HBORS's interest rate risk exposure as of 31 March 2022 and 31 December 2021 which may not be indicative for the positions in other periods.

Bank	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non-interest bearing	Total	Fixed interest rate
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>31 March 2022</b>								
<b>Assets</b>								
Cash on hand and current accounts with banks	380,593	-	-	-	-	1,190,613	1,571,206	380,593
Deposits with other banks	-	-	-	-	-	15,215	15,215	-
Loans to financial institutions	61,610	436,585	749,942	1,799,995	3,890,950	2,878	6,941,960	6,826,170
Loans to other customers	1,344,607	734,541	1,373,881	3,175,141	8,921,726	176,537	15,726,433	14,852,450
Financial assets at fair value through profit or loss	-	-	-	-	25,652	103,892	129,544	25,652
Financial assets at fair value through other comprehensive income	3,140,550	-	-	-	-	55,310	3,195,860	3,140,550
Other assets	-	-	-	-	-	38,957	38,957	-
<b>Total assets</b>	<b>4,927,360</b>	<b>1,171,126</b>	<b>2,123,823</b>	<b>4,975,136</b>	<b>12,838,328</b>	<b>1,583,402</b>	<b>27,619,175</b>	<b>25,225,415</b>
<b>Liabilities</b>								
Deposits from customers	117,423	-	-	-	-	490,114	607,537	117,423
Borrowings	156,365	544,389	1,713,818	5,689,476	7,682,788	41,787	15,828,623	15,775,471
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	144,648	144,648	-
Other liabilities	-	-	-	-	-	369,310	369,310	-
<b>Total liabilities</b>	<b>273,788</b>	<b>544,389</b>	<b>1,713,818</b>	<b>5,689,476</b>	<b>7,682,788</b>	<b>1,045,859</b>	<b>16,950,118</b>	<b>15,892,894</b>
<b>Interest rate gap</b>	<b>4,653,572</b>	<b>626,737</b>	<b>410,005</b>	<b>(714,340)</b>	<b>5,155,540</b>	<b>537,543</b>	<b>10,669,057</b>	<b>9,332,521</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.1. Interest rate risk (continued)

Bank	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total	Fixed interest rate
31 December 2021	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>								
Cash on hand and current accounts with banks	80,902	-	-	-	-	1,877,718	1,958,620	80,902
Deposits with other banks	-	-	-	-	-	7,500	7,500	-
Loans to financial institutions	136,649	300,681	794,823	1,825,594	3,989,089	3,307	7,050,143	6,925,070
Loans to other customers	1,721,753	643,354	1,294,971	3,130,097	8,977,083	197,118	15,964,376	14,941,579
Financial assets at fair value through profit or loss	-	-	-	-	16,375	202,609	218,984	16,375
Financial assets at fair value through other comprehensive income	2,857,247	-	-	-	-	58,457	2,915,704	2,857,247
Other assets	-	-	-	-	-	34,494	34,494	-
<b>Total assets</b>	<b>4,796,551</b>	<b>944,035</b>	<b>2,089,794</b>	<b>4,955,691</b>	<b>12,982,547</b>	<b>2,381,203</b>	<b>28,149,821</b>	<b>24,821,123</b>
<b>Liabilities</b>								
Deposits from customers	417,163	-	-	-	-	543,378	960,541	417,163
Borrowings	244,301	310,552	1,807,992	5,775,874	7,941,861	34,657	16,115,237	16,069,304
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	190,303	190,303	-
Other liabilities	-	-	-	-	-	416,178	416,178	-
<b>Total liabilities</b>	<b>661,464</b>	<b>310,552</b>	<b>1,807,992</b>	<b>5,775,874</b>	<b>7,941,861</b>	<b>1,184,516</b>	<b>17,682,259</b>	<b>16,486,467</b>
<b>Interest rate gap</b>	<b>4,135,087</b>	<b>633,483</b>	<b>281,802</b>	<b>(820,183)</b>	<b>5,040,686</b>	<b>1,196,687</b>	<b>10,467,562</b>	<b>8,334,656</b>

6

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.5. Market risk (continued)**

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

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

	Group		Bank	
	31 March	31 December	31 March	31 December
	2022	2021	2022	2021
	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>				
Fixed interest rate assets	25,284,582	24,880,889	25,225,415	24,821,123
Variable interest rate assets	810,358	947,495	810,358	947,495
Non-interest bearing	1,587,782	2,384,672	1,583,402	2,381,203
<b>Total</b>	<b>27,682,722</b>	<b>28,213,056</b>	<b>27,619,175</b>	<b>28,149,821</b>
<b>Liabilities</b>				
Fixed interest rate liabilities	15,892,894	16,486,467	15,892,894	16,486,467
Variable interest rate liabilities	11,365	11,276	11,365	11,276
Non-interest bearing	1,068,793	1,203,834	1,045,859	1,184,516
<b>Total liabilities</b>	<b>16,973,052</b>	<b>17,701,577</b>	<b>16,950,118</b>	<b>17,682,259</b>

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.5. Market risk (continued)**

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

**Sensitivity analysis**

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

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

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

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

Currency	Increase in b. p. Mar 31, 2022	Effect on profit Mar 31, 2022 HRK '000	Increase in b. p. Dec 31, 2021	Effect on profit Dec 31, 2021 HRK '000
EUR	+6	- <sup>1</sup>	+6	- <sup>2</sup>
USD	+56	-	+10	174
Currency	Decrease in b. p. Mar 31, 2022	Effect on profit Mar 31, 2022 HRK '000	Decrease in b. p. Dec 31, 2021	Effect on profit Dec 31, 2021 HRK '000
EUR	-6	-	-6	-
USD	-56	-	-10	(174)

<sup>1 and 2</sup> There is no impact due to the application of zero floor

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.5. Market risk (continued)**

**23.5.2. Currency risk**

Total assets and total liabilities as of 31 March 2022 and 31 December 2021 in HRK and foreign currencies can be shown as follows:

Group	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>31 March 2022</b>						
<b>Assets</b>						
Cash on hand and current accounts with banks	376,446	54,160	-	380,606	1,196,962	1,577,568
Deposits with other banks	-	15,215	-	15,215	-	15,215
Loans to financial institutions	-	3,247,520	-	3,247,520	3,694,440	6,941,960
Loans to other customers	46,478	9,597,200	-	9,643,678	6,082,755	15,726,433
Financial assets at fair value through profit or loss	25,652	48,770	-	74,422	55,122	129,544
Financial assets at fair value through other comprehensive income	-	1,065,329	-	1,065,329	2,183,674	3,249,003
Property, plant and equipment and intangible assets	-	-	-	-	43,623	43,623
Foreclosed assets	-	-	-	-	24,996	24,996
Other assets	-	1,861	-	1,861	41,138	42,999
<b>Total assets</b>	<b>398,576</b>	<b>14,030,055</b>	<b>-</b>	<b>14,428,631</b>	<b>13,322,710</b>	<b>27,751,341</b>
<b>Liabilities</b>						
Deposits from customers	101,916	177,721	-	279,637	327,900	607,537
Borrowings	188,790	14,135,857	-	14,324,647	1,503,976	15,828,623
Provisions for guarantees, commitments and other liabilities	-	17,611	20,940	38,551	106,354	144,905
Other liabilities	122	15,726	45	15,893	376,094	391,987
<b>Total liabilities</b>	<b>290,828</b>	<b>14,346,915</b>	<b>20,985</b>	<b>14,658,728</b>	<b>2,314,324</b>	<b>16,973,052</b>
<b>Currency gap</b>	<b>107,748</b>	<b>(316,860)</b>	<b>(20,985)</b>	<b>(230,097)</b>	<b>11,008,386</b>	<b>10,778,289</b>

\*Amounts linked to a one-way currency clause represent HRK 28,486 thousand.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.2. Currency risk (continued)

Total assets and total liabilities as of 31 March 2022 and 31 December 2021 in HRK and foreign currencies can be shown as follows:

Group	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
31 December 2021	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>						
Cash on hand and current accounts with banks	55,583	25,337	-	80,920	1,881,066	1,961,986
Deposits with other banks	-	7,500	-	7,500	-	7,500
Loans to financial institutions	-	3,336,385	-	3,336,385	3,713,758	7,050,143
Loans to other customers	225,452	9,745,523	-	9,970,975	5,993,401	15,964,376
Financial assets at fair value through profit or loss	16,044	100,103	-	116,147	102,837	218,984
Financial assets at fair value through other comprehensive income	-	827,581	-	827,581	2,144,949	2,972,530
Property, plant and equipment and intangible assets	-	-	-	-	43,937	43,937
Foreclosed assets	-	-	-	-	21,369	21,369
Other assets	-	1,372	-	1,372	36,165	37,537
<b>Total assets</b>	<b>297,079</b>	<b>14,043,801</b>	<b>-</b>	<b>14,340,880</b>	<b>13,937,482*</b>	<b>28,278,362</b>
<b>Liabilities</b>						
Deposits from customers	106,027	471,389	-	577,416	383,125	960,541
Borrowings	189,999	14,424,638	-	14,614,637	1,500,600	16,115,237
Provisions for guarantees, commitments and other liabilities	23,613	25,674	15,098	64,385	126,175	190,560
Other liabilities	125	12,493	55	12,673	422,566	435,239
<b>Total liabilities</b>	<b>319,764</b>	<b>14,934,194</b>	<b>15,153</b>	<b>15,269,111</b>	<b>2,432,466</b>	<b>17,701,577</b>
<b>Currency gap</b>	<b>(22,685)</b>	<b>(890,393)</b>	<b>(15,153)</b>	<b>(928,231)</b>	<b>11,505,016</b>	<b>10,576,785</b>

\*Amounts linked to a one-way currency clause represent HRK 28,554 thousand.

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**23. Risk management (continued)**

**23.5. Market risk (continued)**

**23.5.2. Currency risk (continued)**

Total assets and total liabilities as of 31 March 2022 and 31 December 2021 in HRK and foreign currencies can be shown as follows:

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
31 March 2022	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>						
Cash on hand and current accounts with banks	326,446	54,147	-	380,593	1,190,613	1,571,206
Deposits with other banks	-	15,215	-	15,215	-	15,215
Loans to financial institutions	-	3,247,520	-	3,247,520	3,694,440	6,941,960
Loans to other customers	46,478	9,597,200	-	9,643,678	6,082,755	15,726,433
Financial assets at fair value through profit or loss	25,652	48,770	-	74,422	55,122	129,544
Financial assets at fair value through other comprehensive income	-	1,038,088	-	1,038,088	2,157,772	3,195,860
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	42,408	42,408
Foreclosed assets	-	-	-	-	24,996	24,996
Other assets	-	495	-	495	38,462	38,957
<b>Total assets</b>	<b>398,576</b>	<b>14,001,435</b>	<b>-</b>	<b>14,400,011</b>	<b>13,322,692</b>	<b>27,722,703</b>
<b>Liabilities</b>						
Deposits from customers	101,916	177,721	-	279,637	327,900	607,537
Borrowings	188,790	14,135,857	-	14,324,647	1,503,976	15,828,623
Provisions for guarantees, commitments and other liabilities	-	17,611	20,940	38,551	106,097	144,648
Other liabilities	-	2,669	-	2,669	366,641	369,310
<b>Total liabilities</b>	<b>290,706</b>	<b>14,333,858</b>	<b>20,940</b>	<b>14,645,504</b>	<b>2,304,614</b>	<b>16,950,118</b>
<b>Currency gap</b>	<b>107,870</b>	<b>(332,423)</b>	<b>(20,940)</b>	<b>(245,493)</b>	<b>11,018,078</b>	<b>10,772,585</b>

\* Amounts linked to a one-way currency clause represent HRK 28,486 thousand.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.2. Currency risk (continued)

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>31 December 2021</b>						
<b>Assets</b>						
Cash on hand and current accounts with banks	55,583	25,319	-	80,902	1,877,718	1,958,620
Deposits with other banks	-	7,500	-	7,500	-	7,500
Loans to financial institutions	-	3,336,385	-	3,336,385	3,713,758	7,050,143
Loans to other customers	225,452	9,745,523	-	9,970,975	5,993,401	15,964,376
Financial assets at fair value through profit or loss	16,044	100,103	-	116,147	102,837	218,984
Financial assets at fair value through other comprehensive income	-	798,195	-	798,195	2,117,509	2,915,704
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	42,674	42,674
Foreclosed assets	-	-	-	-	21,369	21,369
Other assets	-	491	-	491	34,003	34,494
<b>Total assets</b>	<b>297,079</b>	<b>14,013,516</b>	<b>-</b>	<b>14,310,595</b>	<b>13,939,393*</b>	<b>28,249,988</b>
<b>Liabilities</b>						
Deposits from customers	106,027	471,389	-	577,416	383,125	960,541
Borrowings	189,999	14,424,638	-	14,614,637	1,500,600	16,115,237
Provisions for guarantees, commitments and other liabilities	23,613	25,674	15,098	64,385	125,918	190,303
Other liabilities	-	3,597	-	3,597	412,581	416,178
<b>Total liabilities</b>	<b>319,639</b>	<b>14,925,298</b>	<b>15,098</b>	<b>15,260,035</b>	<b>2,422,224</b>	<b>17,682,259</b>
<b>Currency gap</b>	<b>(22,560)</b>	<b>(911,782)</b>	<b>(15,098)</b>	<b>(949,440)</b>	<b>11,517,169</b>	<b>10,567,729</b>

\* Amounts linked to a one-way currency clause represent HRK 28,554 thousand.

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

**23. Risk management (continued)**

**23.5. Market risk (continued)**

**23.5.2. Currency risk (continued)**

**Sensitivity analysis**

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

An assumption of reasonably possible fluctuations in EUR exchange rates against HRK was used in the foreign currency risk sensitivity analysis, with the other variables remaining stable, in order to assess the hypothetical effect on HBOR's profit as of 31 March 2022.

Volatility of the exchange rate EUR/HRK, determined using the standard deviation method on the changes of the foreign exchange rate EUR/HRK, equalled 1.31% in the previous 12 months (2021:1.49%).

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

	Change in currency rate Mar 31, 2022 %	Effect on profit Mar 31, 2022 HRK' 000	Change in currency rate Dec 31, 2021 %	Effect on profit Dec 31, 2021 HRK' 000
EUR	+1.31	(421)	+1.49	(11,246)
EUR	-1.31	834	-1.49	10,779

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

Below is a breakdown of the financial assets at fair value based on IFRS 9 classification on 31 March 2022 and 31 December 2021.

Group	31 March 2022		
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
<b>Financial assets at fair value through profit or loss:</b>			
<i>Loans at FVPL:</i>			
Mezzanine loans	-	-	25,652
<i>Investments in investment funds:</i>			
Investments in investment funds at fair value through profit or loss	103,541	-	-
<b>Equity instruments:</b>			
<i>Unlisted equity instruments:</i>			
Investments in corporate shares	-	-	31
Depository receipt - DR	-	-	320
<b>Total financial assets at fair value through profit or loss</b>	<b>103,541</b>	<b>-</b>	<b>26,003</b>
<b>Financial assets at fair value through other comprehensive income:</b>			
<b>Debt instruments:</b>			
<i>Listed debt instruments:</i>			
Bonds of the Republic of Croatia	1,587,711	-	-
Corporate bonds	2,388	-	-
Treasury bills of the Ministry of Finance	-	1,601,342	-
Accrued interest	12,055	-	-
<i>Unlisted debt instruments:</i>			
Corporate bonds	-	-	506
Convertible bonds - CB	-	-	1,408
Accrued interest	-	-	237
<b>Total debt instruments</b>	<b>1,602,154</b>	<b>1,601,342</b>	<b>2,151</b>
<i>Unlisted equity instruments:</i>			
Investment in shares of foreign legal entities	-	45	-
Shares of foreign financial institutions – EIF	-	43,311	-
<b>Total equity instruments</b>	<b>-</b>	<b>43,356</b>	<b>-</b>
<b>Total financial assets at fair value through other comprehensive income</b>	<b>1,602,154</b>	<b>1,644,698</b>	<b>2,151</b>

Treasury bills of the Ministry of Finance are presented at level 2 of the fair value hierarchy. To calculate fair value, the discounted cash flow method was used at a discount rate that corresponded to the yields realised at the last auction of the Ministry of Finance before the valuation date. The transfer from Level 1 to Level 2 occurred because the quoted bid prices on Bloomberg were higher (with a negative purchase yield) in relation to the prices realised at the same time at the primary auction of treasury bills, at which the treasury bills were issued with positive yields.

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

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

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

Group	31 December 2021		
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
<b>Financial assets at fair value through profit or loss:</b>			
<i>Loans at FVPL:</i>			
Mezzanine loans	-	-	16,375
<i>Investments in investment funds:</i>			
Investments in investment funds at fair value through profit or loss	202,260	-	-
<b>Equity instruments:</b>			
<i>Listed equity instruments:</i>			
Investments in corporate shares	-	-	-
<i>Unlisted equity instruments:</i>			
Investments in corporate shares	-	-	31
Depository receipt - DR	-	-	318
<b>Total financial assets at fair value through profit or loss</b>	<b>202,260</b>	<b>-</b>	<b>16,724</b>
<b>Financial assets at fair value through other comprehensive income:</b>			
<b>Debt instruments:</b>			
<i>Listed debt instruments:</i>			
Bonds of the Republic of Croatia	1,358,981	-	-
Corporate bonds	2,393	-	-
Treasury bills of the Ministry of Finance	-	1,550,344	-
Accrued interest	15,620	-	-
<i>Unlisted debt instruments:</i>			
Corporate bonds	-	-	532
Convertible bonds - CB	-	-	1,397
Accrued interest	-	-	247
<b>Total debt instruments</b>	<b>1,376,994</b>	<b>1,550,344</b>	<b>2,176</b>
<i>Unlisted equity instruments:</i>			
Investment in shares of foreign legal entities	-	45	-
Shares of foreign financial institutions – EIF	-	42,971	-
<b>Total equity instruments</b>	<b>-</b>	<b>43,016</b>	<b>-</b>
<b>Total financial assets at fair value through other comprehensive income</b>	<b>1,376,994</b>	<b>1,593,360</b>	<b>2,176</b>

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

Bank	31 March 2022		
	Level 1	Level 2	Level 3
	HRK '000	HRK '000	HRK '000
<b>Financial assets at fair value through profit or loss:</b>			
<b>Loans at FVPL:</b>			
Mezzanine loans	-	-	25,652
<b>Investments in investment funds:</b>			
Investments in investment funds at fair value through profit or loss	103,541	-	-
<b>Equity instruments:</b>			
<b>Unlisted equity instruments:</b>			
Investments in companies' shares	-	-	31
Depository receipt - DR	-	-	320
<b>Total financial assets at fair value through profit or loss</b>	<b>103,541</b>	<b>-</b>	<b>26,003</b>
<b>Financial assets at fair value through other comprehensive income:</b>			
<b>Debt instruments:</b>			
<b>Listed debt instruments:</b>			
Bonds of the Republic of Croatia	1,537,295	-	-
Treasury bills of the Ministry of Finance	-	1,601,342	-
Accrued interest	11,716	-	-
<b>Unlisted debt instruments:</b>			
Corporate bonds	-	-	506
Convertible bonds - CB	-	-	1,408
Accrued interest	-	-	237
<b>Total debt instruments</b>	<b>1,549,011</b>	<b>1,601,342</b>	<b>2,151</b>
<b>Unlisted equity instruments:</b>			
Investment in shares of foreign legal entities – SWIFT	-	45	-
Shares of foreign financial institutions – EIF	-	43,311	-
<b>Total equity instruments</b>	<b>-</b>	<b>43,356</b>	<b>-</b>
<b>Total financial assets at fair value through other comprehensive income</b>	<b>1,549,011</b>	<b>1,644,698</b>	<b>2,151</b>

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

Bank	31 December 2021		
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
<b>Financial assets at fair value through profit or loss:</b>			
<i>Loans at FVPL:</i>			
Mezzanine loans	-	-	16,375
<i>Investments in investment funds:</i>			
Investments in investment funds at fair value through profit or loss	202,260	-	-
<b>Equity instruments:</b>			
<i>Listed equity instruments:</i>			
Investments in companies' shares	-	-	-
<i>Unlisted equity instruments:</i>			
Investments in companies' shares	-	-	31
Depository receipt - DR	-	-	318
<b>Total financial assets at fair value through profit or loss</b>	<b>202,260</b>	<b>-</b>	<b>16,724</b>
<b>Financial assets at fair value through other comprehensive income:</b>			
<b>Debt instruments:</b>			
<i>Listed debt instruments:</i>			
Bonds of the Republic of Croatia	1,304,974	-	-
Treasury bills of the Ministry of Finance	-	1,550,344	-
Accrued interest	15,194	-	-
<i>Unlisted debt instruments:</i>			
Corporate bonds	-	-	532
Convertible bonds - CB	-	-	1,397
Accrued interest	-	-	247
<b>Total debt instruments</b>	<b>1,320,168</b>	<b>1,550,344</b>	<b>2,176</b>
<i>Unlisted equity instruments:</i>			
Investment in shares of foreign legal entities – SWIFT	-	45	-
Shares of foreign financial institutions – EIF	-	42,971	-
<b>Total equity instruments</b>	<b>-</b>	<b>43,016</b>	<b>-</b>
<b>Total financial assets at fair value through other comprehensive income</b>	<b>1,320,168</b>	<b>1,593,360</b>	<b>2,176</b>

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

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

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

**24.1.1. Level 3 - fair value**

**a) Mezzanine loans**

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

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

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

Due to the above-mentioned characteristics of the mezzanine loan, the assessment of fair value of these loans was carried out in accordance with the precautionary principle, according to which income is recognised only when it is actually incurred, and expenses also when they are possible. Accordingly, a less favourable option for HBOR is used to estimate the fair value of mezzanine loans, assuming that the debtor will continue to operate on a regular basis in the future.

During 2021, based on a Decision in pre-bankruptcy proceedings, HBOR took over 50% of the debtor's receivables as senior debt and 50% of receivables as mezzanine debt. A less favourable option for HBOR is the possibility in which HBOR would convert the amount of its current receivables under mezzanine loans into the share capital of the debtor, and the fair value of mezzanine loans as at 31 March 2022 was estimated at HRK 25,652 thousand.

In the reporting period, HBOR sold one mezzanine loan at the fair value of HRK 2,702 thousand (31 December 2021: HRK 439 thousand).

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

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

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

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

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

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

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

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

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

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

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

*(ii) Sensitivity analysis of corporate bond with the stated potential effect on profit/loss as at 31 March 2022, under the assumption of a change in discount rate (yield) of 2% and 10%*

Under the assumption that the market interest rates change by 2% compared with those in effect as at 31 March 2022, 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 13.77%, the bond price would be 33.55%, which would result in an increase in HBOR's generated profits of HRK 10 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 17.77%, the bond price would be 32.27%, which would result in a decrease in HBOR's generated profits of HRK 10 thousand.

The change in interest rates defined in the "Decision on the Management of Interest Rate Risk in the Bank Book", which is applied when calculating standard interest rate shock, is used as the basis for the change in the market interest rate of 2% compared with the market terms and conditions in effect as at 31 March 2022. "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 51 thousand.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

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

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

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

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

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

Group and Bank	Mar 31, 2022 HRK '000	Mar 31, 2021 HRK '000
Balance as at 1 January	16,375	2,658
Increase/(decrease) in fair value through profit or loss	11,979	15,869
Sale of mezzanine loans	(2,702)	-
<b>Balance as of 31 March</b>	<b>25,652</b>	<b>18,527</b>

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

Group and Bank	Mar 31, 2022 HRK '000	Mar 31, 2021 HRK '000
Balance as at 1 January	2,176	2,262
Decrease in fair value through other comprehensive income	(38)	(25)
Net foreign exchange	23	23
Accrued interest	(10)	(11)
<b>Balance as of 31 March</b>	<b>2,151</b>	<b>2,249</b>

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

## 25. Reporting by segments

General information on segments is given in relation to business segments of the Group. Since the Group does not allocate administrative costs and interest by segments, the profitability of segments is not presented.

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

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

### Business segments:

The Group has following business segments:

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the period 1 January - 31 March 2022 (continued)  
(All amounts are expressed in HRK thousand)

25. Reporting by segments (continued)

Jan 1 – Mar 31, 2022	Banking activities HRK '000	Insurance activities HRK '000	Other activities HRK '000	Unallocated HRK '000	Total HRK '000
Net interest income	144.778	327	-	-	145.105
Net fee income	4.568	414	536	-	5.518
Net income/(expenses) from financial operations	4.074	213	-	-	4.287
Impairment gain and provisions	130.391	-	31	-	130.422
Net premiums earned	-	2.440	-	-	2.440
Other income	4.161	17	74	(77)	4.175
<b>Income from operating activities</b>	<b>287.972</b>	<b>3.411</b>	<b>641</b>	<b>(77)</b>	<b>291.947</b>
Operating costs	(57.628)	(1.639)	(459)	77	(59.649)
Impairment loss and provisions	-	(72)	-	-	(72)
Expenses for insured cases	-	(33)	-	-	(33)
Net change in provisions	-	(1.876)	-	-	(1.876)
Other expenses	-	(217)	-	-	(217)
<b>Operating expenses</b>	<b>(57.628)</b>	<b>(3.837)</b>	<b>(459)</b>	<b>77</b>	<b>(61.847)</b>
<b>Profit/(loss) before income tax</b>	<b>230.344</b>	<b>(426)</b>	<b>182</b>	<b>-</b>	<b>230.100</b>
Income tax	-	-	-	-	-
<b>Profit/(loss) for the period</b>	<b>230.344</b>	<b>(426)</b>	<b>182</b>	<b>-</b>	<b>230.100</b>
<b>31 March 2022</b>					
Assets of segment	27.722.703	64.008	1.284	(36.654)	27.751.341
<b>Total assets</b>	<b>27.722.703</b>	<b>64.008</b>	<b>1.284</b>	<b>(36.654)</b>	<b>27.751.341</b>
Liabilities of segment	16.950.118	22.799	163	(28)	16.973.052
Total equity	10.772.585	3.692	838	1.174	10.778.289
<b>Total liabilities and total equity</b>	<b>27.722.703</b>	<b>26.491</b>	<b>1.001</b>	<b>1.146</b>	<b>27.751.341</b>

Intra-group transactions are presented under "Unallocated".

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

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

25. Reporting by segments (continued)

	Banking activities HRK '000	Insurance activities HRK '000	Other activities HRK '000	Unallocated HRK '000	Total HRK '000
<b>Jan 1 – Mar 31, 2021</b>					
Net interest income	120,013	312	-	-	120,325
Net fee income	4,094	304	561	-	4,959
Net income/(expenses) from financial operations	(5,372)	93	-	-	(5,279)
Net premiums earned	-	1,740	-	-	1,740
Other income	4,455	5	66	(68)	4,458
<b>Income from operating activities</b>	<b>123,190</b>	<b>2,454</b>	<b>627</b>	<b>(68)</b>	<b>126,203</b>
Operating costs	(45,030)	(1,473)	(485)	68	(46,920)
Impairment loss and provisions	9,640	(88)	45	-	9,597
Expenses for insured cases	-	(78)	-	-	(78)
Net change in provisions	-	(101)	-	-	(101)
Other expenses	-	(136)	-	-	(136)
<b>Operating expenses</b>	<b>(35,390)</b>	<b>(1,876)</b>	<b>(440)</b>	<b>68</b>	<b>(37,638)</b>
<b>Profit before income tax</b>	<b>87,800</b>	<b>578</b>	<b>187</b>	<b>-</b>	<b>88,565</b>
Income tax	-	-	-	-	-
<b>Profit for the period</b>	<b>87,800</b>	<b>578</b>	<b>187</b>	<b>-</b>	<b>88,565</b>
<b>31 December 2021</b>					
Assets of segment	28,249,988	63,867	1,162	(36,655)	28,278,362
<b>Total assets</b>	<b>28,249,988</b>	<b>63,867</b>	<b>1,162</b>	<b>(36,655)</b>	<b>28,278,362</b>
Liabilities of segment	17,682,259	19,187	160	(29)	17,701,577
Total equity	10,567,729	6,567	718	1,771	10,576,785
<b>Total liabilities and total equity</b>	<b>28,249,988</b>	<b>25,754</b>	<b>878</b>	<b>1,742</b>	<b>28,278,362</b>

Intra-group transactions are presented under "Unallocated".

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

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

**26. Capital management**

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

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

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

Regulatory capital is comprised of core capital minus debit items.

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

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

The Group calculates regulatory capital and capital requirements in accordance with Basel II requirements, and below is a breakdown of capital adequacy ratio as at 31 March 2022 and 31 December 2021.

	Group		Bank	
	31 March 2022	31 December 2021	31 March 2022	31 December 2021
	HRK '000	HRK '000	HRK '000	HRK '000
<b>Total regulatory capital</b>	<b>10,738,179</b>	<b>10,310,733</b>	<b>10,738,901</b>	<b>10,310,068</b>
Credit risk weighted exposure amount	14,027,244	14,243,551	14,020,128	14,237,375
Capital requirements for operating risk	849,131	849,144	827,463	827,476
Capital requirements for currency risk	-	749,598	-	719,956
<b>Total capital requirements</b>	<b>14,876,375</b>	<b>15,842,293</b>	<b>14,847,591</b>	<b>15,784,807</b>
<b>Capital adequacy ratio</b>	<b>72.18</b>	<b>65.08</b>	<b>72.33</b>	<b>65.32</b>
	HRK '000	HRK '000	HRK '000	HRK '000
<b>Own funds needed for ensuring capital adequacy according to regulatory requirements</b>	<b>1,785,165</b>	<b>1,901,075</b>	<b>1,781,711</b>	<b>1,894,177</b>

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

for the period 1 January - 31 March 2022 (continued)

(All amounts are expressed in HRK thousand)

---

### **27. Events after the reporting period date**

After the reporting period, on 17 May 2022, HBOR signed a loan contract with the Council of Europe Development Bank (CEB) in the amount of EUR 200 million for the promotion of economic growth and assistance for recovery and reconstruction after the earthquakes in Croatia. The proceeds of this loan will be used for financing under existing finance programmes, but also for projects that will be financed within the National Recovery and Resilience Plan (NRRP).

Through HBOR, the CEB loan will be placed directly to the end users for partial financing of the development and upgrading of local and regional infrastructure, such as water supply, sewerage and wastewater treatment networks, local roads, educational, cultural and other communal facilities.

In addition, the loan will enable HBOR to support micro, small and medium-sized enterprises (MSMEs), create new and preserve existing jobs, and finance the reconstruction of and equipment for infrastructure and buildings damaged in the earthquake.

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

(All amounts are expressed in HRK thousand)

	Mar 31, 2022 HRK '000	Mar 31, 2021 HRK '000
<b>Premium earned</b>		
Gross premium written	4,592	3,359
Premium impairment allowance originated and reserved on collection	(24)	(12)
Gross outward reinsurance premium	(1,979)	(1,490)
<b>Net premium written</b>	<b>2,589</b>	<b>1,857</b>
Changes in the gross unearned premium reserve	(116)	(158)
Changes in the gross unearned premium reserve, reinsurer's share	(33)	41
<b>Net premium earned</b>	<b>2,440</b>	<b>1,740</b>
Fee and commission income	950	865
Net investment income	553	409
Other operating income	14	3
<b>Net income</b>	<b>3,957</b>	<b>3,017</b>
Gross expense for returned premiums	(391)	(236)
Reinsurer's share	174	100
Gross reserve for returned premiums	68	13
Reinsurer's share	(40)	(7)
<b>Net expense and reserve for returned premiums</b>	<b>(189)</b>	<b>(130)</b>
Claims incurred	(36)	(98)
Claims incurred, reinsurer's share	3	20
Change in the claims provision	(2,239)	(135)
Change in the claims provision, reinsurer's share	335	27
<b>Net claims incurred</b>	<b>(1,937)</b>	<b>(186)</b>
Marketing and provision expenses	(192)	(73)
Administrative expenses	(1,826)	(1,813)
Other operating expenses	(44)	(47)
Net exchange differences other than those on financial instruments	(13)	(4)
<b>(Loss)/Profit before income tax</b>	<b>(244)</b>	<b>764</b>
Income tax	-	-
<b>(Loss)/Profit for the period</b>	<b>(244)</b>	<b>764</b>
<b>Other comprehensive income</b>		
<b>Items that are not transferred subsequently to profit or loss:</b>		
Deferred tax – adjustment for previous period	-	-
<b>Total items that are not transferred subsequently to profit or loss</b>	<b>-</b>	<b>-</b>
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Gains on revaluation of financial assets available for sale	1	343
Decrease in the fair value of financial assets available for sale	(3,793)	(879)
Transfer of realized gains on asset available for sale to profit or loss	-	-
Deferred tax	684	97
<b>Total items that may be reclassified subsequently to profit or loss:</b>	<b>(3,108)</b>	<b>(439)</b>
<b>Other comprehensive (revenue)/income after income tax</b>	<b>(3,108)</b>	<b>(439)</b>
<b>Total comprehensive (revenue)/Income after income tax</b>	<b>(3,352)</b>	<b>325</b>
<b>Attributable to:</b>		
Equity holder of the parent	(3,352)	325

Profit before and after taxation in the separate financial statements of the HKO Group differs from the result in the Consolidated Income Statement of HBOR Group, as IFRS 9 has not been applied in separate financial statements.

Appendix - Financial Performance of the HKO Group  
Statement of Financial Position as of  
as of

(All amounts are expressed in HRK thousand)

	Mar 31, 2022 HRK '000	Dec 31, 2021 HRK '000
<b>Assets</b>		
<b>Non-current assets</b>		
Property and equipment	737	825
Intangible assets	478	439
Deferred tax assets	684	
<b>Total non-current assets</b>	<b>1,899</b>	<b>1,264</b>
<b>Current assets</b>		
Investments available for sale	53,142	56,826
Receivables from insurance operations	2,693	2,361
Other receivables	657	683
Cash and cash equivalents	6,363	3,366
<b>Total current assets</b>	<b>62,865</b>	<b>63,236</b>
<b>Total assets</b>	<b>64,764</b>	<b>64,500</b>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Share capital	37,500	37,500
Retained earnings and reserves	5,044	3,941
Other reserves	(470)	2,638
(Loss)/Profit for the period	(244)	1,103
<b>Total equity</b>	<b>41,830</b>	<b>45,182</b>
<b>Technical provisions</b>		
Gross technical provisions	26,148	23,861
Technical provisions, reinsurer's share	(10,579)	(10,317)
	<b>15,569</b>	<b>13,544</b>
<b>Current liabilities</b>		
Liabilities from insurance operations	4,567	2,568
Other liabilities	2,798	3,206
<b>Total liabilities</b>	<b>7,365</b>	<b>5,774</b>
<b>Total equity and liabilities</b>	<b>64,764</b>	<b>64,500</b>

Appendix - Financial Performance of the HKO Group  
Statement of Cash Flows  
for the period 1 January – 31 March

(All amounts are expressed in HRK thousand)

	Mar 31, 2022 HRK '000	Mar 31, 2021 HRK '000
<b>Operating activities</b>		
Loss/Profit before income tax	(244)	764
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>		
Depreciation	94	79
Impairment gain and provisions	65	54
Income tax	-	-
Accrued interest	87	122
Other	-	(3)
<i>Operating profit before working capital changes</i>	2	1,016
<b>Changes in operating assets and liabilities:</b>		
Net decrease in deposits with other banks	-	-
Net realized (gain)/loss on assets available for sale	-	-
Decrease of discount in assets available for sale and assets held to maturity	16	23
Net gain on financial assets at fair value through profit or loss	-	0
Premium receivables	(356)	788
Net decrease/(increase) in other assets	(16)	(36)
Net decrease of assets and liabilities from insurance operations	1,999	(1,814)
Net increase in technical provisions	2,025	218
Net increase in other liabilities	(421)	38
<b>Net cash provided from operating activities</b>	<b>3,249</b>	<b>233</b>
<b>Investment activities</b>		
Net purchase of financial assets at fair value through profit or loss	-	-
Net sale of financial assets at fair value through profit or loss	-	-
Net purchase of assets available for sale	-	-
Net sale of assets available for sale	-	-
Purchase of assets held to maturity	-	-
Collection of assets held to maturity when due	-	-
Net purchase of property, plant and equipment and intangible assets	(46)	(7)
<b>Net cash (used in)/provided from investment activities</b>	<b>(46)</b>	<b>(7)</b>
<b>Effect of foreign currency to cash and cash equivalents</b>		
Net foreign exchange	(206)	(93)
<b>Net effect</b>	<b>(206)</b>	<b>(93)</b>
Net increase in cash and cash equivalents	2,997	133
Balance as of 1 January	3,371	5,964
Net increase in cash	2,997	133
<b>Balance as of 31 March</b>	<b>6,368</b>	<b>6,097</b>

Appendix - Financial Performance of the HKO Group  
Statement of Changes in Equity  
for the period 1 January – 31 March  
(All amounts are expressed in HRK thousand)

	Share capital HRK '000	Retained earnings and reserves HRK '000	Other reserves HRK '000	(Loss)/Profit for the period HRK '000	Total equity attributable to the equity holders of the Company HRK '000	Total equity HRK '000
<b>Balance as of 1 January 2021</b>	<b>37,500</b>	<b>1,749</b>	<b>3,825</b>	<b>2,192</b>	<b>45,266</b>	<b>45,266</b>
Profit for the period	-	-	-	764	764	764
Other comprehensive income	-	-	(439)	-	(439)	(439)
Total comprehensive income	-	-	(439)	764	325	325
Transfer of profit 2020 to retained earnings	-	2,192	-	(2,192)	-	-
<b>Balance as of 31 March 2021</b>	<b>37,500</b>	<b>3,941</b>	<b>3,386</b>	<b>764</b>	<b>45,591</b>	<b>45,591</b>
<b>Balance as of 1 January 2022</b>	<b>37,500</b>	<b>3,941</b>	<b>2,638</b>	<b>1,103</b>	<b>45,182</b>	<b>45,182</b>
Loss for the period	-	-	-	(244)	(244)	(244)
Other comprehensive income	-	-	(3,108)	-	(3,108)	(3,108)
Total comprehensive income	-	-	(3,108)	(244)	(3,352)	(3,352)
Transfer of profit 2021 to retained earnings	-	1,103	-	(1,103)	-	-
<b>Balance as of 31 March 2022</b>	<b>37,500</b>	<b>5,044</b>	<b>(470)</b>	<b>(244)</b>	<b>41,830</b>	<b>41,830</b>