



**ANNUAL REPORT**

**OF THE CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT GROUP**

**FOR 2022**

Zagreb, March 2023

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## STATEMENT OF PERSONS RESPONSIBLE FOR THE PREPARATION OF THE ANNUAL REPORT

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To the best of our knowledge, the 2022 Annual Report contains a truthful development of events and business results as well as the position of the Croatian Bank for Reconstruction and Development and the Group and the description of the most significant risks and contingencies the Croatian Bank for Reconstruction and Development and the Group are exposed to.

President of the  
Management Board



Hrvoje Čuvalo, MSc

Member of the  
Management Board



Alan Herjavec, MSc

Member of the  
Management Board



Josip Pavković



Zagreb, 23 March 2023

## MANAGEMENT REPORT FOR 2022

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The Annual Report includes the summary of financial information, description of operations and audited Annual Financial Statements with the Independent auditor's report for the year ended 31 December 2022. Audited Financial Statements are shown for the Croatian Bank for Reconstruction and Development Group and the Croatian Bank for Reconstruction and Development.

### Legal status

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

### Establishment

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

### HBOR Group

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

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

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

	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Total assets</b>	28,680.36	28,249.99	29,032.31
<b>Gross loans</b>	27,197.29	26,329.34	27,903.26
<b>Total equity</b>	10,354.62	10,567.73	10,710.60
<b>Total income</b>	657.97	728.64	682.07
<b>Total expense</b>	(578.63)	(541.56)	(495.90)
<b>Profit</b>	79.34	187.08	186.17
<b>Interest income</b>	621.34	676.17	627.88
<b>Interest expense</b>	(244.19)	(184.61)	(158.41)
<b>Net interest income</b>	377.15	491.56	469.47

**Credit rating as at 31 December 2022**

BBB+/A-2 by Standard & Poor's

**Regional offices**

Regional office for Dalmatia

Regional office for Istria

Regional office for Lika

Regional office for Primorje and Gorski kotar

Regional office for Northwestern Croatia

Regional office for Slavonija and Baranja

**Number of employees**

On 31 December 2022, there were 382 employees in HBOR.

On 31 December 2022, there were 402 employees in HBOR Group.

**Exchange rate**

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

31 December 2022                      EUR 1 = HRK 7.534500                      USD 1 = HRK 7.064035

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

## STATEMENT ON THE CODE OF CORPORATE GOVERNANCE APPLICATION

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### Croatian Bank for Reconstruction and Development (HBOR)

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

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

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

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

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

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

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

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

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

in the Government of the Republic of Croatia, three Members of Parliament, and the President of the Croatian Chamber of Economy.

In 2022, the members of the Supervisory Board were as follows:

- Zdravko Marić, DSc, Minister of Finance and Deputy Prime Minister of the Republic of Croatia, President of the Supervisory Board (in office until 18 July 2022),
- Marko Primorac, DSc, Minister of Finance and President of the Supervisory Board (in office since 18 July 2022),
- Tomislav Ćorić, DSc, Minister of the Economy and Sustainable Development, Vice President of the Supervisory Board (in office until 6 May 2022),
- Davor Filipović, DSc, Minister of the Economy and Sustainable Development, Vice President of the Supervisory Board (in office since 6 May 2022),
- Nikolina Brnjac, DSc, Minister of Tourism and Sport,
- Darko Horvat, Minister of Physical Planning, Construction and State Assets, (in office until 17 March 2022),
- Ivan Paladina, Minister of Physical Planning, Construction and State Assets, (in office since 17 March 2022),
- Nataša Tramišak, Minister of Regional Development and EU Funds,
- Marija Vučković, MSc, Minister of Agriculture,
- Luka Burilović, DSc, President of the Croatian Chamber of Economy,
- Žarko Tušek, Member of the Croatian Parliament,
- Predrag Štromar, Member of the Croatian Parliament,
- Siniša Hajdaš Dončić, DSc, Member of the Croatian Parliament.

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

Members of the Management Board of HBOR in 2022:

- Tamara Perko, MSc, President of the Management Board, (in office until 16 October 2022)
- Hrvoje Čuvalo, MSc, Member of the Management Board, (in office until 16 October 2022)
- Hrvoje Čuvalo, MSc, President of the Management Board, (in office since 24 October 2022)
- Alan Herjavec, MSc, Member of the Management Board, (in office since 24 October 2022)
- Josip Pavković, Member of the Management Board, (in office since 24 October 2022)

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

appointed by the Supervisory Board. The President is appointed by the Supervisory Board from among the independent members of the Audit Committee.

In 2022, members of the **Audit Committee** of HBOR were:

- Prof.DSc. Lajoš Žager, Full Professor, Department of Accounting, Faculty of Economics and Business of the University of Zagreb, Chairman of the Audit Committee,
- Predrag Štromar, Chairman of the Physical Planning and Construction Committee of the Croatian Parliament, member of the Audit Committee,
- Prof.DSc. Boris Tušek, Full Professor, Department of Accounting, Faculty of Economics and Business of the University of Zagreb, member and Deputy Chairman of the Audit Committee (in office since 27 September 2022).

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

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

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

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

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

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

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

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

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

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

This Statement is considered to be part of the Annual Report of the HBOR Group for the period 1 January to 31 December 2022.

### **30 YEARS OF HBOR**

In 2022, HBOR celebrated its 30<sup>th</sup> anniversary. On 12 June 1992, less than a month after the admission of the Republic of Croatia to the United Nations, the history of the Croatian Bank for Reconstruction and Development began to be written. At that time, the Croatian Credit Bank for Reconstruction (Hrvatska kreditna banka za obnovu – HKBO), the predecessor to today's HBOR, was established by a special act. HKBO took over the assets, rights, obligations and 50 people employed in the Croatian Development and Export Bank (Hrvatska razvojna i izvozna banka d.d. - HRIB). On the basis of the Act on Reconstruction Financing, which the Parliament voted on in June 1992, HKBO also took over the financial resources, rights and obligations of the Fund for the construction and renovation of buildings destroyed in the war. The establishment and operation of HKBO, which was modelled on the German development bank Kreditanstalt für Wiederaufbau (KfW), was preceded by the signing of an Agreement between the Government of the Republic of Croatia and the Government of the Republic of Germany, according to which KfW was in charge of technical, financial and advisory assistance to HKBO.

Throughout its history full of milestones, HBOR successfully strengthened its market presence and has evolved from a bank for the reconstruction of war-destroyed economy to a modern, internationally recognised development and export bank and export credit agency.

The strength and importance of HBOR are best confirmed by the figures - during thirty years of its operation, the Bank has supported almost 70 thousand projects with an amount of over HRK 203 billion. The first business year ended with assets of HRK 335 million, and today, HBOR's total assets amount to HRK 29 billion.

The readiness for rapid changes and adjustment of operations to the needs of the Croatian economy are key factors of HBOR's success.

## DESCRIPTION OF OPERATIONS OF HBOR GROUP IN 2022

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### OPERATIONS OF CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

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The reporting 2022 was another challenging year for the financial and business sector, both in Europe and in the Republic of Croatia. The economic recovery from the crisis caused by the pandemic, which began at the end of 2021, was abruptly halted by a new crisis caused by the war in Ukraine. Disruptions in supply chains, increases in energy prices and high inflationary pressures had a negative impact on the Croatian economy, and reduced the willingness and capacity of Croatian businessmen for new investments. In order to support economic activities and thus mitigate the consequences of an unfavourable economic environment, just like during the COVID-19 pandemic, HBOR reacted promptly by introducing new measures.

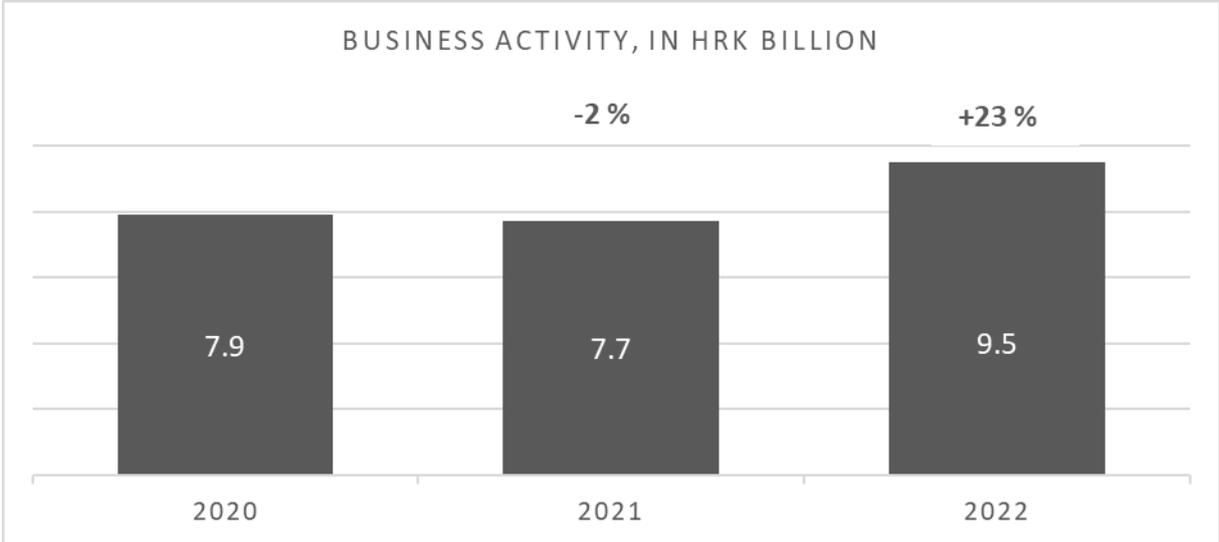
Along with the implementation of crisis measures related to the difficulties caused by the COVID-19 pandemic and the war in Ukraine, the implementation of financial instruments within the National Recovery and Resilience Plan (NRRP) began during the reporting year. Within the framework of the NRRP, HBOR was entrusted with the implementation of financial instruments worth HRK 1.925 billion (EUR 255.5 million) with the aim of further strengthening investment activity in the domestic economy, strengthening the competitiveness and resilience of economic entities, and encouraging the transition towards green and digital technologies as the basis of future sustainability and competitiveness.

Along with the introduction of new measures and financial instruments, during 2022, HBOR continued the implementation of its current investment and working capital loan programmes, guarantee activities, export credit insurance programmes, encouraging the development of the risk capital market, as well as other activities, all in accordance with the 2020 – 2024 Business Strategy of HBOR.

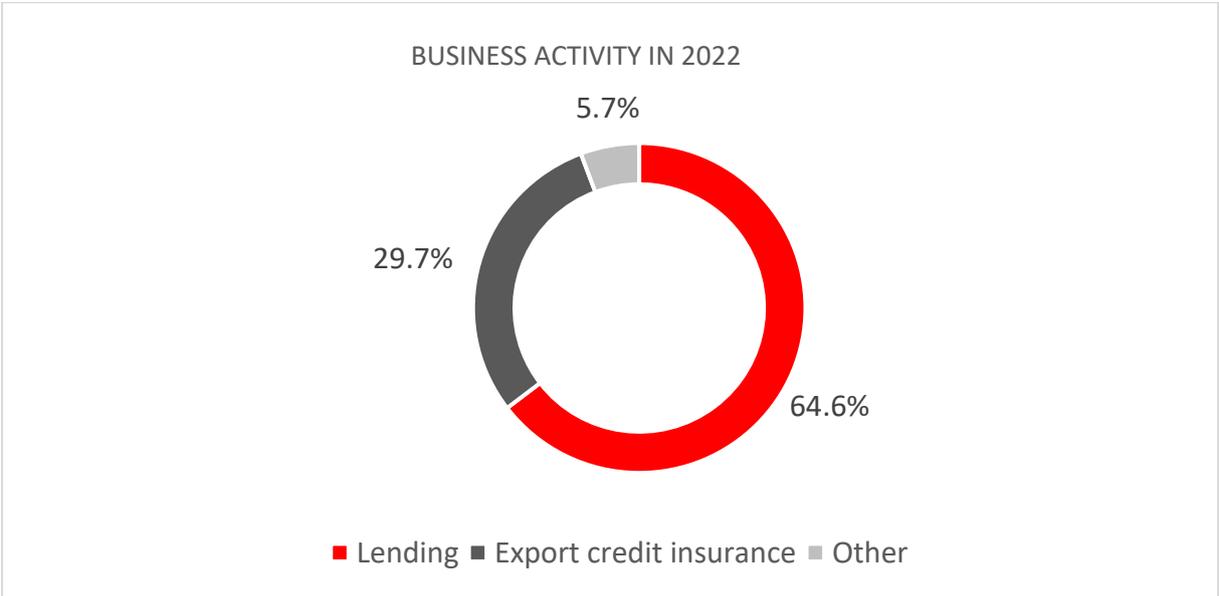
The following strategic goals of HBOR have been defined by the Business Strategy:

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

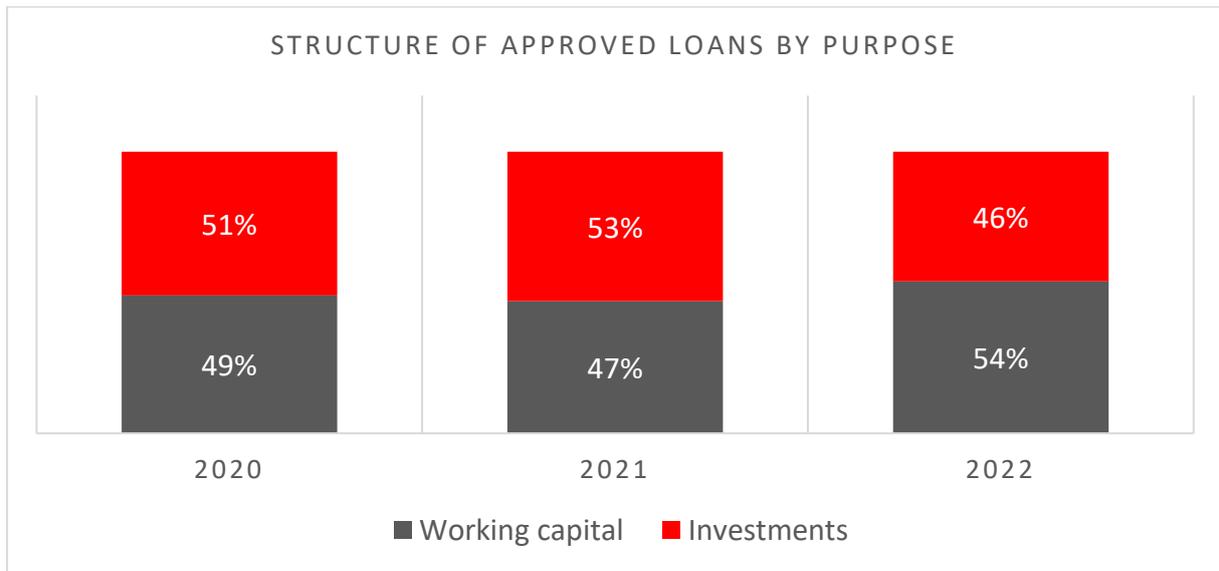
New measures and activities resulted in an increase in the interest of private business and public entities in HBOR's funds, and during 2022, HBOR approved 2,831 placements in the amount of more than HRK 9.5 billion.



The major part of the business activity related to the lending activity: in the reporting year, 2,343 loans were approved totalling more than HRK 6.4 billion.



In 2022, the trend of lower propensity of entrepreneurs for investments was continued, and the year was marked by the increased use of loans to maintain liquidity. However, in spite of these circumstances, slightly less than half of the total amount of approved loans was approved by HBOR for investment projects. The approved investment loans are particularly important because these investments are focused on the balanced economic development, increase in entrepreneurs' competitiveness, investments in new technologies and production as well as new employment.



Most of HBOR's borrowers in 2022 were small and medium-sized enterprises, to which 1,983 loans were approved, i.e. 89 percent of the total number of approved loans.

Public sector entities were also active beneficiaries of HBOR's funds during the reporting year. In 2022, they were granted almost one billion kuna in loans. Local and regional government units (LRGUs) have expressed great interest in the loan programme "ESIF Loans for Public Lighting".

In 2022, Croatian exporters were backed by HBOR in more than 630 projects with the total amount of more than HRK 3.2 billion.

## **NEW MEASURES AND PRODUCTS INTRODUCED**

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### **MEASURES TO HELP THE ECONOMY FOLLOWING THE RUSSIAN AGGRESSION AGAINST UKRAINE**

Due to the market disruptions caused by the Russian aggression against Ukraine, in the third quarter of 2022, HBOR successfully notified and received the approval of the European Commission for the implementation of measures to help the economy based on the Temporary Crisis Framework, which include favourable loans for liquidity through the Working Capital CRISIS 2022 temporary measure and insurance policies as collateral with the possibility of subsidising the insurance premium (Programme for the Portfolio Insurance of Liquidity Loans for Exporters, Programme for Individual Insurance of Liquidity Loans for Exporters and Programme for Subsidising the Insurance Premium).

#### **Temporary measure under the loan programme for working capital – Working Capital CRISIS 2022**

With favourable loans for liquidity through the Working Capital CRISIS 2022 temporary measure, HBOR made it easier for entrepreneurs to deal with the economic consequences of the Russian-Ukrainian crisis, such as decrease in demand, termination of existing contracts and projects with the resulting loss of turnover, disruptions in supply chains, especially raw materials and semi-finished products, or other input materials that are no longer available or are not cost-effective.

Loans are approved directly and in cooperation with commercial banks according to the risk-sharing model for a period of up to 5 years, including a 1-year grace period, without loan application fee and the commitment fee. The interest rate on loans in 2022 already ranged from 0.5 percent for the disbursement period and the first three years of repayment, and from 2 percent for the fourth and fifth year of repayment. In the conditions of changing interest rate policies of commercial banks reflected in rising interest rates, this aroused a significant interest of entrepreneurs.

From 1 September 2022, when the Measure was introduced, until 31 December 2022, 31 loans were approved in the total amount of HRK 282 million. The implementation of this Measure will continue in 2023.

#### **Programmes for portfolio and individual insurance of liquidity loans for exporters – measures to help the economy of the Republic of Croatia following the Russian aggression against Ukraine**

Programmes for portfolio and individual insurance of liquidity loans for exporters – measures to help the economy of the Republic of Croatia following the Russian aggression against Ukraine, enable exporters and their suppliers (intermediate exporters) which encountered difficulties in their operation caused by the crisis that occurred as a result of the Russian aggression against Ukraine and which meet the eligibility criteria established by those programmes to obtain collaterals that banks as lenders can use to approve new loans for liquidity. The respective programmes are implemented on the basis of chapter 2.2. of the Temporary Crisis Framework of the European Commission.

The intention of the Programme for the portfolio insurance is to encourage banks to approve new funds faster and easier in order to preserve the liquidity of exporters from all sectors of the economy. Exporters are considered to be entrepreneurs who have generated at least 10 percent of their operating income from export revenues in the latest financial year, as well as their suppliers who have generated at least 20 percent of their income from sale to exporters and their suppliers. Banks involved in cooperation under the portfolio insurance programme include loans according to the previously agreed criteria in the insured portfolio, for which HBOR assumes up to 90 percent of the recovery risk.

Programme for individual insurance was introduced for the purpose of insuring loans that do not completely fit into the eligibility criteria for the inclusion of loans in the portfolio under the portfolio insurance programme, and which the insurer, after an analysis, assesses as acceptable for insurance.

**Programme for Subsidising the Insurance Premium – measure to help the economy following the Russian aggression against Ukraine**

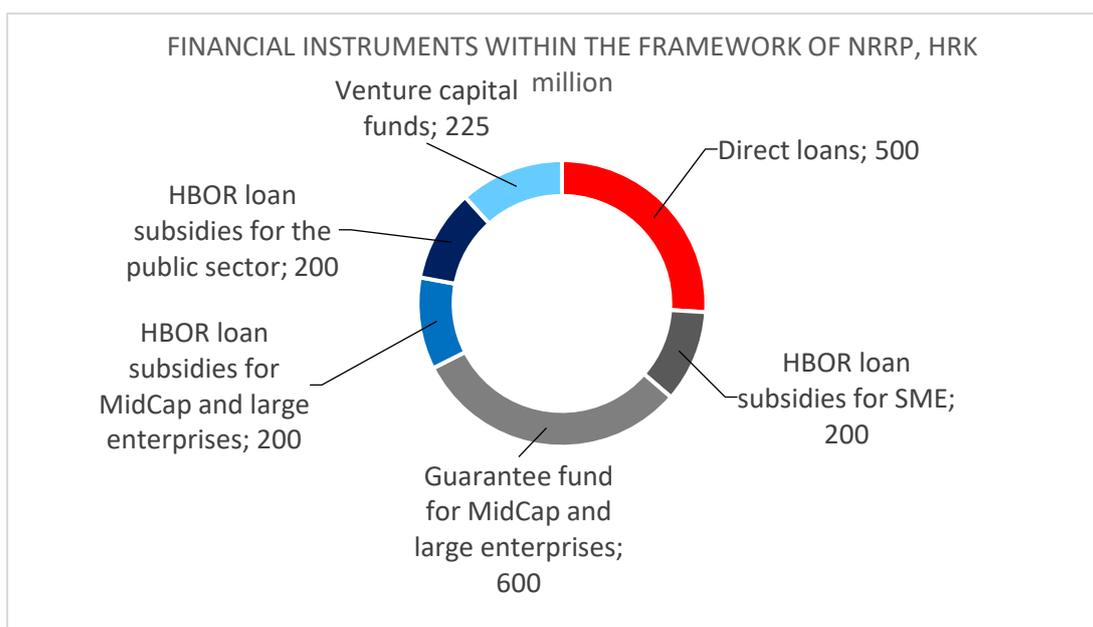
Programme for Subsidising the Insurance Premium – measure to help the economy following the Russian aggression against Ukraine is implemented on the basis of chapter 2.1. of the Temporary Crisis Framework of the European Commission.

This programme enables exporters, as beneficiaries of liquidity loans insured under the programmes for portfolio insurance or individual insurance of liquidity loans for exporters implemented by HBOR as measures to help the economy of the Republic of Croatia following the Russian aggression against Ukraine, to partially reduce or not to have the costs of insurance premium if they meet the conditions for subsidising the premium. In this way, the insurance of loans granted to exporters is made as favourable as possible in order to avoid a significant increase in financial costs of exporters and further disruption of their liquidity.

**NATIONAL RECOVERY AND RESILIENCE PLAN**

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

During the development of financial instruments, with the exception of the goals of the RRF, the goals of HBOR defined in HBOR’s 2020 – 2024 Business Strategy were taken into account. The implementation of financial instruments enabled favourable financing of new private and public sector investments aimed at strengthening the competitiveness and resilience of the economy, as well as the transition towards a green and digital economy, as the basis of the competitiveness of economic entities in the future period.



Within the framework of the NRRP, HBOR was entrusted with the implementation of six financial instruments with a total value of EUR 256 million.

During 2022, Agreements were signed with the Ministry of Finance and the Ministry of the Economy and Sustainable Development, based on which HBOR was entrusted with the implementation of all six financial instruments. As a result, the implementation of four financial instruments began in 2022, while the implementation of the remaining two instruments is planned in 2023 and 2024.

Description of NRRP financial instruments:

#### **Direct loans through the programme Special SME Segments Investment under the NRRP**

The financial instrument is aimed at entrepreneurs and sectors that usually have difficult access to financing: start-ups, young entrepreneurs, female entrepreneurs and investments in less developed areas, as well as research and development.

By implementing the respective financial instrument, with the support of the RRF funds, HBOR approves direct investment loans in the amount of EUR 100 thousand to EUR 1 million at interest rates of 0.4 percent and 0.8 percent. The implementation of the financial instrument began in June 2022.

#### **Financial instruments of interest subsidies for the private and public sectors**

The implementation of three financial instruments of interest subsidies started in June 2022. Interest subsidies will enable more favourable terms and conditions for financing investments of:

- micro, small and medium-sized business entities,
- entities of medium market capitalisation and large business entities,
- public sector.

Interest subsidy can be granted for investment loans aimed at investments in strengthening competitiveness and resilience, and it is even higher if it relates to investments in green and digital technologies necessary for the long-term sustainable development of the public and private sectors in the Republic of Croatia.

The interest subsidy amount per individual loan is limited to EUR 500 thousand for small and medium-sized enterprises, and EUR 1 million for other entities, so that the largest possible number of borrowers can benefit from such favourable terms and conditions. A subsidy of up to 3 percentage points is granted depending on the purpose and type of investment, and it can be up to 75 percent of the interest rate for green and digital transition, up to 65 percent of the interest rate for investments in special areas of the Republic of Croatia or in research, development and innovation, and for investments of the public sector to mitigate the consequences of the earthquake, or up to 50 percent for other investments in competitiveness and resilience.

Interest subsidies have been approved via HBOR loan programmes through direct lending from June 2022, and from January 2023 also in cooperation with 15 commercial banks.

#### **Guarantee Fund financial instrument for loans to mid-cap companies and large companies**

In the Republic of Croatia, there have been for many years various guarantee schemes for investment support to micro, small and medium enterprises. In order to provide similar support to mid-caps and large business entities, the National Recovery and Resilience Plan envisages the establishment of a new model of guarantees for investment loans of mid-caps and large business entities. As previously mentioned, during 2022, the Agreement was signed between HBOR and the relevant ministries, which enabled the implementation of this instrument. The implementation of the instrument will begin in 2023. It will enable the issuance of guarantees for investment loans to entities of medium market

capitalisation and large business entities with a coverage of up to 80 percent of overdue loan principal and subsidisation of up to 100 percent of the amount of the guarantee fee, depending on the state aid rules.

### **Promoting the development of new venture capital funds**

Traditional sources cannot always adequately respond to the financial needs of fast-growing, but high-risk companies. For this reason, within the NRPP, funds are provided for further strengthening of small and medium-sized enterprises through investments in equity and quasi-equity capital with the aim of continuing the development of their business ideas in the Republic of Croatia. Apart from the signing of the Agreement with the relevant ministries entrusted with the implementation of the financial instrument, HBOR began cooperation with the European Investment Fund in 2022 with the aim of developing a new instrument, the implementation of which is planned for 2024.

### **Do No Significant Harm principle**

It is important to mention that the implementation of all previously described NRRP financial instruments is aligned with the Do No Significant Harm principle. This principle refers to the requirement that no investment financed should have significant negative impacts on climate, environment, natural ecosystem, water and other objectives defined by the EU Taxonomy, and by which HBOR contributes directly to the development of climate and environmentally more sustainable economy of the Republic of Croatia. In this way, the Croatian economy and society are encouraged to become more resilient to future market disturbances, but also more sustainable in terms of climate and environment.

## **IMPLEMENTATION OF COVID-19 MEASURES**

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### **WORKING CAPITAL COVID-19 MEASURE**

The measure included lending under the risk-sharing model with commercial banks or directly for loan amounts above HRK 1.5 million to exporters or the tourism sector, i.e. above HRK 37 million to other entities. Loans were approved with a repayment period of up to 5 years, including the possibility of a grace period of up to 1 year, at an interest rate from 0 percent on HBOR's share in the loan for the first three years of loan repayment. During 2022, the programme was implemented through 15 banks, and directly for loan amounts of more than HRK 1.5 million for entrepreneurs in tourism activities and those generating at least 10% of income from exports or indirect exports, and for loan amounts exceeding HRK 37 million for other entrepreneurs. The measure was implemented until 30 June 2022.

### **WORKING CAPITAL FOR RURAL DEVELOPMENT**

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

#### **Results – approved loans:**

In 2022, within the framework of COVID-19 measures, HBOR approved directly 152 loans in the total amount of almost HRK 1.4 billion.

From the beginning of implementation of the COVID-19 Measures until the end of 2022, under loan programmes within the framework of COVID-19 Measures, HBOR approved 656 loans in the amount exceeding HRK 3.5 billion.

### **PROGRAMMES FOR THE PORTFOLIO INSURANCE AND INDIVIDUAL INSURANCE OF LIQUIDITY LOANS FOR EXPORTERS – COVID-19 MEASURES**

The aim of the respective programmes that were implemented until 30 June 2022 pursuant to the Temporary Framework of the European Commission was to encourage banks to approve funds more quickly and easily in order to preserve the liquidity of exporters and indirect exporters from all sectors of the economy. Banks involved in cooperation under the programmes included loans granted for exporters' liquidity according to the previously agreed criteria in the insured portfolio, for which HBOR assumed up to 90 percent of the loan principal amount. From the introduction of the programme in 2020 until 30 June 2022, 369 loans were insured in the total amount of HRK 4.2 billion.

### **PROGRAMME OF SUBSIDISING THE INSURANCE PREMIUM – COVID-19 MEASURE**

The respective programme was implemented until 30 June 2022 pursuant to the Temporary Framework of the European Commission. It enabled the exporters to meet the terms and conditions of the programme to receive a subsidy for the entire or a part of the cost of the insurance premium for

exporters' liquidity loans – COVID-19 measure. The programme was introduced in November 2020, and during its implementation, 299 subsidies in the amount of more than HRK 76 million were approved.

**Results – guarantees and credit insurance:**

In 2022, HBOR insured 84 loans in the total amount of HRK 1,385.2 million and approved 84 subsidies in the amount of more than HRK 24 million.

Through the mentioned programmes of insurance and issuing of guarantees, loans approved both by HBOR and commercial banks were insured. From the beginning of implementation of the COVID-19 Measures until their end, under all HBOR's insurance and guarantee issuance programmes within the framework of the COVID-19 Measures, more than HRK 4.4 billion in liquidity loans were provided to entrepreneurs. Of the approved amount of insurance, HRK 2.7 billion related to loans approved to entrepreneurs by commercial banks.

## **CONTINUED COOPERATION WITH LRGUs AND HAMAG-BICRO**

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### **INTEREST RATE SUBSIDY IN INDIVIDUAL COUNTIES, MUNICIPALITIES AND CITIES**

In 2022, HBOR continued to contribute to the achievement of balanced regional development through cooperation with individual counties, municipalities and cities. Pursuant to business cooperation agreements concluded between HBOR and counties, municipalities and cities, entrepreneurs can count on interest rate subsidies, on HBOR's loans, awarded by a county, municipality or city. In certain areas, the agreements introduced a possibility of lending to entrepreneurs at an interest rate from 0 percent. During 2022, valid agreements were signed and were in effect with 42 units of local and regional government - LRGUs.

### **CO-OPERATION WITH HAMAG-BICRO**

In 2022, business cooperation with HAMAG-BICRO was continued under guarantee programmes:

- ESIF individual guarantees for investment loans and working capital loans intended to small business entities (except for agriculture and fishery, trade activities etc.),
- ESIF individual guarantees for rural development intended for easier access to financing of micro, small and medium entities of small businesses in the agricultural, processing and forestry sectors,
- ESIF limited portfolio guarantee intended for easier access to financing of micro, small and medium entities of small businesses.

## **EU PROGRAMMES AND INITIATIVES**

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### **FINANCIAL INSTRUMENTS**

In 2022, HBOR continued to implement the current Financial Instruments intended for the private sector: “ESIF Growth and Expansion Loans” and “Working Capital for Rural Development”, but also the financial instrument intended to the public sector: “ESIF Loans for Public Lighting”. At the same time, the adjustment of existing financial instruments to the needs of the market continued through changes in their terms and conditions.

In addition to the implementation of existing financial instruments, HBOR actively participated through working groups in the process of programming the use of EU funds for the new financial period 2021-2027. The programming process, coordinated by the Ministry of Regional Development and EU Funds, ended in December 2022, and resulted in the adoption of key Programme documents (Partnership Agreement, Operational Programme Competitiveness and Cohesion 2021-2027 (OPCC), Integrated Territorial Programme 2021-2027 (ITP), Operational Programme Effective Human Resources 2021-2027 (EHR), Fisheries and Aquaculture Programme 2021-2027 (FAP)) by the European Commission.

In 2022, through work in informal working groups coordinated by the Ministry of Regional Development and EU Funds, and in cooperation with the ministries in charge, HBOR began the process of developing new financial instruments, the implementation of which is expected in 2024.

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

The Pan-European Guarantee Fund was set up by the EIB Group in 2020 to accelerate the recovery of the European economy following the COVID-19 pandemic with an objective of preserving jobs and providing liquidity. Within the framework of the Pan-European Guarantee Fund, in 2021, HBOR entered into a Guarantee Agreement with the European Investment Fund (EIF).

By conclusion of the agreement with the EIF, HBOR was enabled to use guarantees for the loan portfolio granted to small and medium enterprises and mid-caps in the total amount of up to EUR 50 million.

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

This product was implemented throughout 2022, at its implementation ended at the end of the year. Under the product, HBOR utilised the planned portfolio of EUR 50 million of approved loans in full.

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

Until the end of September 2022, HBOR implemented the NCF credit line, which resulted from the cooperation with the EIB and the concluded Finance Contract in the amount of EUR 15 million, the funds of which were intended for financing the conservation and sustainable use of biodiversity through green entrepreneurship and climate change adaptation by using natural solutions.

NCFE is a financial instrument that combines EIB funds and LIFE programme funds, an instrument of the European Union intended to finance activities in the field of environment, nature and climate protection.

In addition to favourable lending terms and conditions, entrepreneurs and public sector entities were provided with free technical assistance in the form of advisory services – establishment whether the NCFE criteria are met, assistance in identifying and preparation of projects, technical and financial advice, assistance relating to marketing strategy, reporting on project status and project results, etc.

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

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

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

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

The Project was implemented in cooperation with two groups of external consultants (Consultants 1 and Consultants 2). During the term of the contract on consultancy services (May - December 2021), two key goals of the Project were realised with Consultants 1: advisory services were provided to HBOR in order for HBOR to develop the most appropriate model of providing technical assistance. Also, a promotional campaign was organised to raise awareness of the available advisory support of HBOR.

In the period from 1 January 2022 to 30 June 2022, the second phase of the Project was implemented, in which the third key goal was realised: advisory services and technical assistance were provided to the final beneficiaries of the Project, i.e. LRGUs, which include advisory services related to revision/preparation of project technical documentation (analysis of the current situation, analysis of the constructions removal project, preparation of a geodetic study, preparation of a concept design, execution of documents of public law bodies, preparation of the main design with a cost estimate, revision of the cost estimate), preparation of a feasibility study with an analysis of costs and benefits, financial consulting, i.e. analysis of possible funding sources, support in the preparation of a project proposal and preparation of the necessary documentation for the application to available public calls, as well as advisory support in the public procurement and consulting services in the implementation of projects.

In 2022, the final beneficiaries of advisory services were units of local and regional government, i.e. three cities, four municipalities and one home for elderly persons owned by the county, and a total of ten projects were implemented, six of which were in less developed areas of the Republic of Croatia. The selected projects are from the area of social infrastructure: construction of a kindergarten, construction/renovation of a home for the elderly and infirm persons, construction of a sports centre, extension of an elementary school, construction of a sports hall, reconstruction of a building for the purpose of opening a multifunctional centre, and projects in the area of environmental protection:

disposal of wastewater, sewage network, installation of sewage treatment plant and construction of a civic amenity site for construction waste.

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

The entire 2022 was strongly marked by the implementation activities of the comprehensive thematic sustainable financing project called "Reorient Croatian Development Bank's (HBOR) operations towards sustainable financing and green transition", by which HBOR started a systematic adjustment to the requirements of regulations on sustainability and sustainable financing.

This HBOR's project of sustainable finance was supported by the Directorate-General for Structural Reform Support (DG REFORM)), which helps member states implement reforms to create jobs and promote sustainable growth. The project activities were defined by HBOR and DG REFORM jointly, and support was provided through the technical support of experts from an international consortium, who have expert knowledge in various areas of sustainable financing.

The goal of the project is to strengthen HBOR in understanding environmental, climate and social risks and their implications for business, and to ensure development and implementation of a comprehensive set of sustainable financial policies, procedures, tools and benchmarks.

Implementation activities began at the end of 2021, and project activities include: preparation of a diagnostic report, a methodology for managing ESG risks and impacts, organisational and communication activities, training and capacity building, and an action plan for sustainable financing.

Most of the project activities took place in 2022, and the expected completion of this 18-month project is April 2023.

## **DEVELOPMENT OF VENTURE CAPITAL AND PRIVATE EQUITY MARKET**

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

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

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

Through the venture capital fund, the Venture Capital Fund Fil Rouge Capital (FRC2 CROATIA PARTNERS SCSP), which was established in 2019 with HBOR's support, more than 180 individual investments were made. During 2022, the third fund was established under the CROGIP programme (Croatian Growth Investment Programme), started to operate and made its first investment, whereas other two funds invested intensively in companies in the Republic of Croatia. The establishment of a technology transfer fund is in preparation, and the manager of the fund is planned to be selected in 2023.

At the end of 2022, a prerequisite was created for the establishment of two more funds from the National Recovery and Resilience Plan (NRRP). More information on this topic can be found in the National Recovery and Resilience Plan (NRRP).

### **FRC2 CROATIA PARTNERS SCSP (ESIF VENTURE CAPITAL FUND)**

FRC2 Croatia Partners SCSp is a venture capital fund financed partially from the proceeds of ESIF Financial Instruments through cooperation with the European Investment Fund (hereinafter: the EIF), and partially from the proceeds of private investors. The company FRC2 GP S.à r.l. was selected by the EIF as the fund management company and in 2019, the fund FRC2 Croatia Partners SCSp (FRC2 Fund) was established.

In 2019, HBOR became one of the investors in the FRC2 Fund, however, like other investors in the Fund, it does not participate in the selection of business entities that will participate in investing.

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

The Fund consists of two components:

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

## **CROATIAN GROWTH INVESTMENT PROGRAMME (CROGIP)**

Within the framework of the EIF-NPI Equity Platform, in 2019, the EIF and HBOR signed the agreement, by which the CROGIP was launched. The CROGIP initiative aims to promote investments in small and medium-sized companies as well as mid-cap companies.

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

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

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

The EIF manages and implements the CROGIP through investments in private equity funds and co-investments with funds and private investors at market conditions. The programme is not restricted to any particular sector. The EIF enables investments in funds and co-investments with selected fund management companies with positive references in accordance with the criteria defined by HBOR in advance through CROGIP. In addition to the EIF's selection criteria, the funds must meet the following criterion in their investment strategy: at least 70 percent of total investments of a fund will be invested in companies that are established in the Republic of Croatia and perform the majority of their business operations in the Republic of Croatia and/or companies that will start their long-term operations in the Republic of Croatia and employ a significant number of local workers.

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

The Adriatic Structured Equity Fund and the Prosperus Growth Fund started operating at the end of 2020 and performed their first investments in Croatian companies in 2021. The Croatian Mezzanine Debt Fund started to operate in 2022 and also made its first investment.

## **TECHNOLOGY TRANSFER FUND**

In 2023, under the CROGIP initiative, which enabled the establishment of the first regional platform for the launching of a fund to finance the commercialisation of innovative technological and scientific solutions of Croatian and Slovenian universities, research institutes and centres, launching of the first fund intended exclusively for the financing of projects related to technology transfer is expected. Besides the EIF, SID Bank d.d. (Slovenian Development Bank) is HBOR's partner in this project. The future technology transfer fund of a minimum size of EUR 40 million will have to ensure, among other conditions, that at least EUR 15 million is invested in projects or companies being developed at universities or research institutes and centres in the Republic of Croatia.

### **THREE SEAS INITIATIVE INVESTMENT FUND**

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

The Three Seas Initiative Investment Fund was created as a financial tool with the help of which capital is invested in the Initiative's projects (investments in private equity and quasi-equity). The Fund's investment goal is to use available funds for investment in infrastructure projects that contribute to security and diversity of energy supply, reduction of emissions and transport costs, economic, social and digital connectivity of the EU member states as well as the integration by reducing differences in infrastructure quality.

At the end of 2020, the Government of the Republic of Croatia made a decision to invest in the Fund with the purpose of encouraging the realisation of joint projects in the area covered by the Initiative. By this Decision, HBOR is authorised to make an investment in the Fund in its own name and for the account of the Government of the Republic of Croatia in an amount of up to EUR 20 million, increased by fees and costs of joining and participating in the Fund. HBOR joined the Fund in the first quarter of 2021. As at 31 December 2022, the size of the Fund equalled EUR 928.1 million.

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

### **EIF-NPI EQUITY PLATFORM AND OTHER MEMBERSHIPS**

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

HBOR is an active member of the professional associations Invest Europe and the European Venture Fund Investors Network (EVFIN). Invest Europe is a professional, non-profit association that brings together the sector of equity investors, venture capital funds and the investment sector and fund managers. It actively contributes to the creation of policies that have an impact on capital investment (directly and through funds) in Europe, and at the same time provides information on the impact of its members on the EU economy and publishes research on the trends and development of the venture capital industry. EVFIN is an informal platform for dialogue and cooperation that brings together 21 public investors from 17 European countries. The aim of the platform is to exchange information and best practices among members and to contribute to the public debate in the EU and to the research of measures to create more sustainable venture capital markets in the EU.

### **STRENGTHENING OF INTERNAL CAPACITIES**

In 2021, HBOR concluded an agreement with the European Investment Bank on the basis of which the European Investment Advisory Hub (EIAH) would provide advisory services to HBOR in order to strengthen HBOR's internal capacities for establishing and monitoring investments in venture capital and private equity funds. One of the activities under the agreement, which began in 2021, was the

preparation of a market gap analysis with respect to venture capital and private equity financing in the Republic of Croatia. The analysis will show the needs and opportunities in the market, including the identification of regulatory and administrative barriers.

Since a technology transfer fund has existed neither in the Republic of Croatia nor in the Republic of Slovenia, with the aim of as high-quality preparation as possible of all stakeholders in the market, in March 2022, HBOR and SID banka addressed the EIB with an application for technical assistance. The advisory support that will be provided under the agreement will be focused on the review of best practices and the organisation of capacity building workshops for universities and research institutions, the technology transfer fund management company and potential investors in the fund.

### **NATIONAL RECOVERY AND RESILIENCE PLAN (NRRP)**

In December 2022, The Ministry of Finance, the Ministry of the Economy and Sustainable Development and the Croatian Bank for Reconstruction and Development (HBOR) signed the Agreement on Delegated Tasks under the National Recovery and Resilience Plan (NRRP) worth a total of EUR 29.86 million.

With the newly signed Agreement on Delegated Tasks under the NRRP, HBOR is entrusted with the implementation of another Financial Instrument – Investment in Equity and Quasi-Equity Finance Instruments for micro, small and medium-sized business entities and mid-cap business entities in the total value of EUR 29.86 million. This is the last, the sixth financial instrument to be implemented by HBOR under the NRRP, and it will contribute to the total value of the tasks delegated to HBOR equalling at the moment EUR 255.5 million.

The start of the implementation of the instrument for equity and quasi-equity finance is planned to take place in 2023, and like other financial instruments implemented by HBOR under the NRRP, it will be intended for providing favourable terms and conditions of financing with the aim of encouraging the strengthening of investment activity in the Croatian economy, strengthening the competitiveness of domestic economic entities, encouraging a successful transition towards green and digital technologies, which are the basis of the future sustainability and competitiveness of the Croatian economy.

In accordance with the regulatory framework for the implementation and use of funds, all investments that will be financed with NRRP funds must meet the criteria of the Do No Significant Harm principle.

## EXPORT CREDIT INSURANCE

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

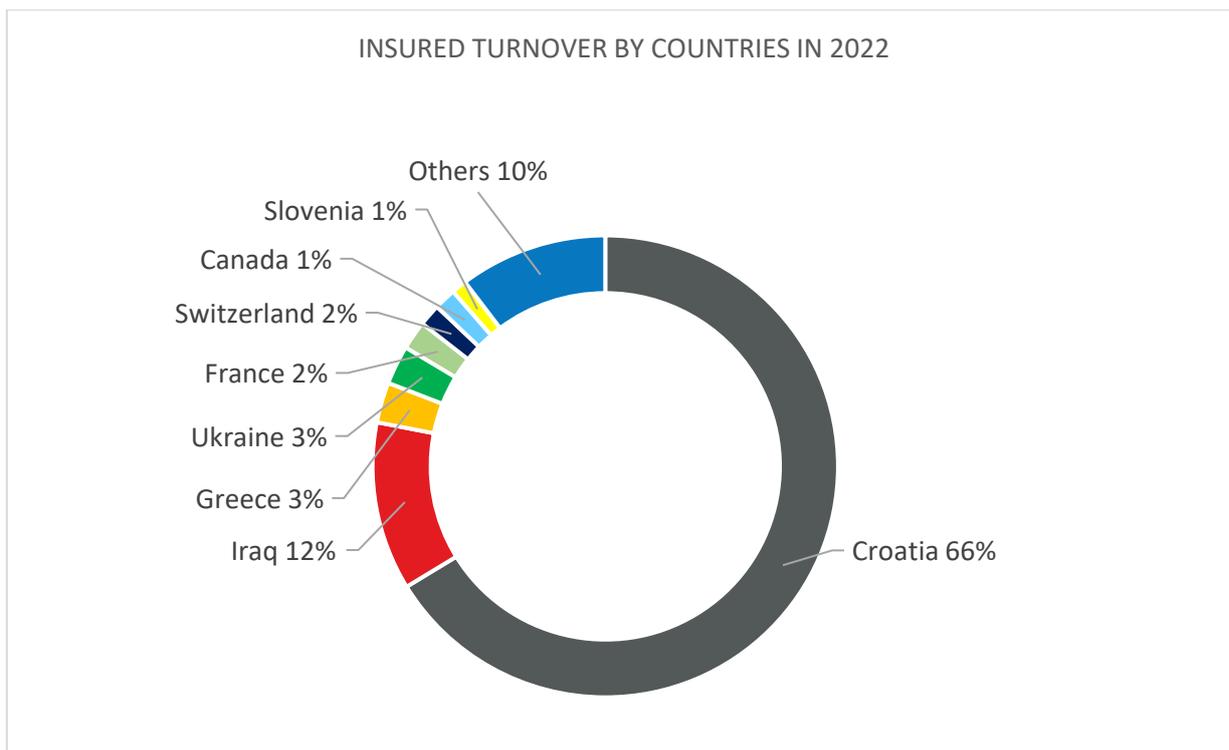
In addition to the implementation of crisis measures related to the COVID-19 pandemic, due to the crisis caused by the Russian aggression against Ukraine, HBOR has placed special emphasis on facilitating liquidity financing for exporters by introducing, under mandate export credit insurance activities, new programmes of insurance under the measure to support the economy of the Republic of Croatia.

Under the Programme for the Insurance of Liquidity Loans for Exporters – Measure to Support the Economy of the Republic of Croatia Following the Russian Aggression Against Ukraine introduced in the second half of 2022 on the basis of the Temporary Crisis Framework of the European Commission, 25 loans for exporters' liquidity totalling HRK 376.1 million were insured by 31 December 2022. HBOR enabled exporters to eliminate or reduce the cost of insuring also these loans through the insurance premium subsidy programme that was introduced in the second half of 2022 as well. Under this programme, the amount of HRK 12 million was approved in subsidies by 31 December 2022. These insurance and premium subsidy programmes will be implemented in 2023, for which an additional amount of HRK 2.6 billion has been provided in the portfolio to be distributed to banks for the purposes of insuring new liquidity loans.

During 2022, HBOR insured a turnover of HRK 2.8 billion, which is a record amount of insured turnover in one year since the start of performing export credit insurance activities mostly as a result of an increased use of insurance programmes introduced with an objective of providing support to the economy in crisis conditions caused by the COVID-19 pandemic and the Russian aggression against Ukraine. In 2022, through its export credit insurance programmes, HBOR supported exports of Croatian goods and services to 43 countries worldwide.

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

Description	2020	2021	2022
Insured turnover	2,096.80	2,626.04	2,834.48
Gross exposure as at 31 December	3,142.28	3,594.77	5,246.67
Insurance premium collected	13.45	53.60	8.13
Indemnities paid	0.02	1.57	49.88
Recourse collection from debtors	9.27	102.72	0.10
Guarantee Fund balance available as at 31 December	477.24	621.78	741.97



## **GROSS EXPOSURE**

As at 31 December 2022, gross exposure of HBOR under the export credit insurance activities stood at HRK 5.2 billion, an increase of 46 percent on the same date in 2021. This is the highest gross exposure of HBOR since the start of HBOR's export credit insurance activities. This increase is a result of stronger activities under the insurance programmes introduced for the purpose of providing support to the economy due to the crises caused by the COVID-19 pandemic and the Russian aggression against Ukraine.

## **INSURANCE OF SHORT-TERM EXPORT RECEIVABLES**

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

Under the above programme, in 2022, HBOR insured the turnover of HRK 480.5 million. Most of the support was provided to exporters engaged in the manufacture of pharmaceutical preparations, photovoltaic modules, wood products and electronic licences. The largest volume of insured export turnover was realised for buyers in Ukraine, France, Canada, Switzerland and Slovenia.

## **INSURANCE OF SHORT-TERM EXPORT RECEIVABLES FOR SMALL EXPORTERS**

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

In 2022, for this category of exporters, the approved volume of insurance totalled HRK 6.6 million. Most of the support was provided to exporters engaged in the manufacture of consumer goods, in consulting services and in retail and wholesale trade. The largest volume of insured export turnover was realised for buyers in Italy, Bosnia and Herzegovina, Austria, Montenegro and France.

#### **REINSURANCE OF SHORT-TERM EXPORT RECEIVABLES**

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

Under the programme for the reinsurance of short-term export receivables, in 2022, HBOR reinsured the export turnover in the amount of HRK 12.4 million. The majority of transactions covered related to the export of goods in the food and processing industries for buyers in Serbia, Ukraine, Kazakhstan, Bosnia and Herzegovina, Vietnam and Algeria.

#### **INSURANCE OF SUPPLIER CREDITS AND DAMAGE DURING PRODUCTION PROCESS**

Under these programmes, in 2022, HBOR insured the turnover in the amount of HRK 441.5 million and thus supported the exports to the markets of Greece, Latvia, Austria, Hungary, the United Kingdom of Great Britain and Northern Ireland, the Czech Republic and Spain and, in terms of more distant export markets, HBOR supported exports to Iraq and Ghana. The insured export transactions related mostly to the export of goods and services in the energy and the machinery and equipment manufacturing sectors.

#### **INSURANCE OF PRE-EXPORT FINANCE LOANS**

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

Under this programme, during 2022, the volume of insured loans totalled HRK 116.2 million for the financing of working capital of exporters in the processing industry.

#### **INSURANCE OF EXPORT PERFORMANCE-RELATED GUARANTEES**

Under the programme, an insurance policy covering a bank guarantee was concluded in an amount of HRK 15 million that was issued in connection with the performance of an export contract of an exporter in the market of Saudi Arabia.

#### **INSURANCE OF WORKING CAPITAL LOAN PORTFOLIO FOR EXPORTERS**

This programme was adopted at the end of 2019 and is implemented in cooperation with banks in order to facilitate access to working capital financing for small and medium-sized enterprises and to encourage them to export and enter new export markets. Banks, in accordance with pre-defined programme terms and conditions and insurance costs, independently decide on loans to be included in

the portfolio covered by HBOR with 80 percent coverage of the principal and regular interest for each loan. In 2022, loans were insured totalling HRK 1.1 million.

#### **PORTFOLIO INSURANCE OF LIQUIDITY LOANS FOR EXPORTERS – MEASURE TO SUPPORT THE ECONOMY OF THE REPUBLIC OF CROATIA FOLLOWING THE RUSSIAN AGGRESSION AGAINST UKRAINE**

The programme was introduced in the second half of 2022 on the basis of the Temporary Crisis Framework of the European Commission. Until 31 December 2022, altogether 23 loans totalling HRK 334.7 million were insured under the programme.

#### **INDIVIDUAL INSURANCE OF LIQUIDITY LOANS FOR EXPORTERS – MEASURE TO SUPPORT THE ECONOMY OF THE REPUBLIC OF CROATIA FOLLOWING THE RUSSIAN AGGRESSION AGAINST UKRAINE**

The programme was introduced in the second half of 2022 on the basis of the Temporary Crisis Framework of the European Commission. Until 31 December 2022, altogether 2 loans totalling HRK 41.4 million were insured under the programme.

#### **INDEMNITIES PAID**

During 2022, eight indemnities were paid totalling HRK 49.88 million, which was the third largest annual amount of indemnities paid since the beginning of export credit insurance activities. Of the number of paid indemnities, five indemnities totalling HRK 49.14 million related to indemnities paid under the programme for portfolio insurance of liquidity loans for exporters – COVID-19, one indemnity totalling HRK 301.45 thousand was paid under the programme for portfolio insurance of working capital loans for exporters, and the remaining two indemnities totalling HRK 425.60 thousand related to indemnities paid under the programme for insurance of short-term export receivables. At the same time, under all insurance programmes, the amount of HRK 39.65 thousand was paid to the insured as compensation for costs incurred for the purpose of reducing possible damage or for the purpose of recoveries.

In 2022, 13 debtor non-payment notifications were received, 6 of which were related to the programme for portfolio insurance of liquidity loans for exporters – COVID-19, 5 were related to the programme for the insurance of short-term export receivables, 1 was related to the programme for the insurance of damage during production process and 1 to the programme for the insurance of supplier credits.

#### **RECOVERIES FROM DEBTORS**

In 2022, the amount of recoveries equalling HRK 103.27 thousand was collected from debtors. This amount of collected recoveries was significantly lower than the amount of recoveries collected in the previous year when it had equalled HRK 102.72 million because, in 2021, recoveries had been collected under several transactions of great value, including a record amount of recoveries collected under a single transaction since the start of export credit insurance activities.

## RISK MANAGEMENT

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

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

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

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

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

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

- Asset and Liability Management Committee – manages liquidity risk, interest rate risk and currency risk through the prescribed policies, ordinances and procedures that regulate this area,

- Credit Risk Assessment and Measurement Committee – manages credit risk through the prescribed policies, ordinances and other internal documents that are related to credit risk,
- HBOR Information System Management Committee – manages the resources of the information system and adequately manages the risks that arise from the use of information technology.

The risk management strategy aims to achieve and maintain a good and efficient system of risk management and to further develop and improve the system in line with the banking regulations and the relevant recommendations and guidelines by taking into account the specific features of HBOR as a development and export bank and a special financial institution.

### **Credit risk**

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

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

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

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

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

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

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

The Bank ensures quality management of liquidity, currency and interest rate risks through the Asset and Liability Management Committee. The management of these risks implies a reduction of interest rate risk, currency risk and liquidity risk to the lowest possible level. The majority of the Bank's organisational units are included, directly and indirectly, in the activities of the Asset and Liability

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

### **Liquidity risk**

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

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

### **Interest rate risk**

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

### **Currency risk**

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

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

### **Operational risk**

The basic principles for operational risk management are determined in the umbrella document: the Operational Risk Management Policies. The system structure of management and responsibility has been set up, the approach to the calculation of capital requirements for operational risk has been

defined, and the reporting system and the manner of determining, containing and monitoring exposure to operational risk have been established.

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

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

### **Outsourcing risk**

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

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

### **Asset quality of HBOR**

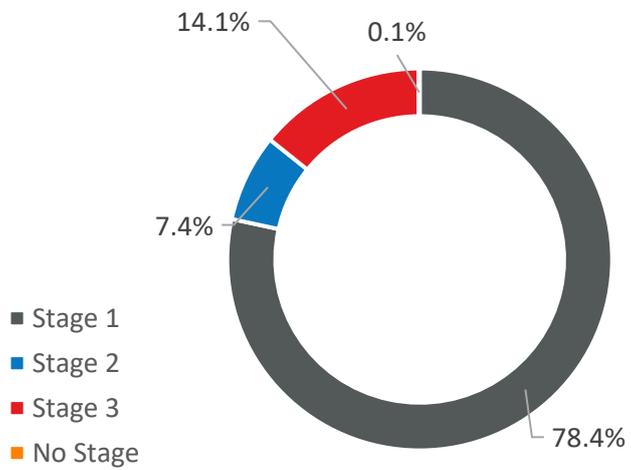
Since 2018, HBOR has implemented the International Financial Reporting Standard 9 for the impairment of financial instruments.

As at 31 December 2022, HBOR's total gross portfolio amounted to approximately HRK 35.5 billion. Of the total gross portfolio, 78.4 percent was allocated to Stage 1, whereas 7.4 percent was allocated to Stage 2 and 14.1 percent was allocated to Stage 3.

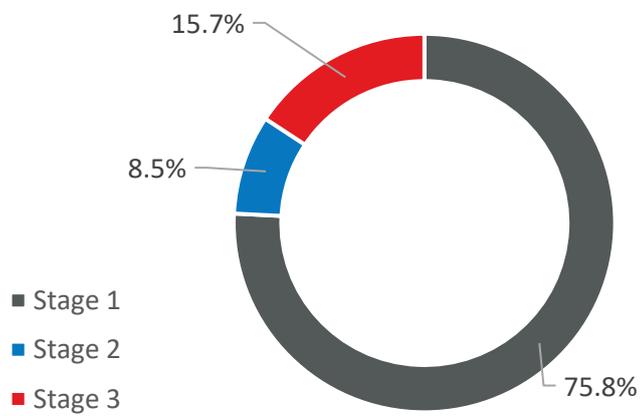
Financial assets not classified to credit risk stages represent 0.1 percent of the total gross portfolio.

Of the total gross loan portfolio, 75.8 percent was allocated to Stage 1, whereas 8.5 percent was allocated to Stage 2 and 15.7 percent to Stage 3, which is shown in the following graphs.

TOTAL GROSS PORTFOLIO BY STAGES OF CREDIT RISK  
31 December 2022



TOTAL GROSS LOAN PORTFOLIO BY STAGES OF CREDIT RISK  
31 December 2022



## **INTERNAL AUDIT**

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

## **COMPLIANCE MONITORING FUNCTION**

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

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

## HUMAN RESOURCES

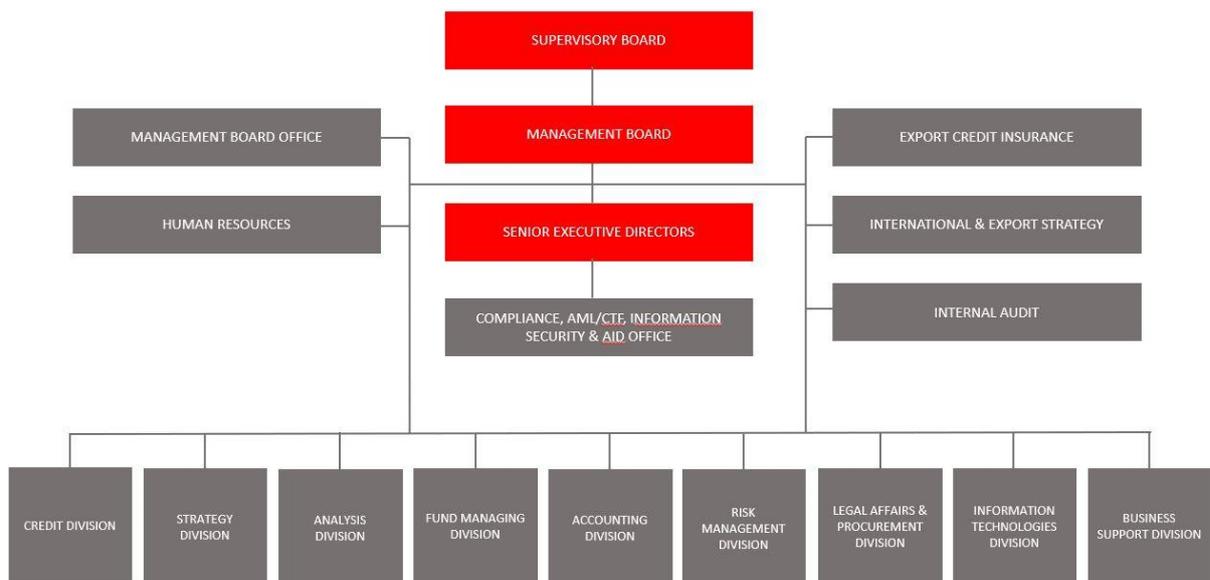
HBOR is a holder of the Employer Partner Certificate that is awarded by Selectio d.o.o. for excellence in human resource management. Since 2006, when HBOR joined the project, permanent growth and development have been observed in all aspects of human resource management.

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

Due to the pandemic and the damage to business premises by the earthquake that struck Zagreb in March 2020, HBOR organised its operations by enabling many of its employees to occasionally perform their duties by working from home. The entire operations of HBOR have been adjusted to the new circumstances, and work from home has been regulated with those employees, the nature of whose tasks and duties allows it.

As at 31 December 2022, there were altogether 382 employees, of which 351, i.e. 92 percent, held a university degree. The average age of employees was 45. The share of women in the total number of employees was 65 percent and the share of men 35 percent.

### Organisational structure of HBOR as at 31 December 2022



## **OTHER ACTIVITIES**

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### **Introduction of the Euro as the official currency in the Republic of Croatia**

In parallel with the activities of the introduction of the euro at the national level, in early 2021, HBOR began to assess the impact of replacing the kuna with the euro in every aspect of business operations for the purpose of initiating the project of introducing the euro. Special focus was placed on the analysis of all HBOR's business activities with the aim of timely harmonisation with the National Plan for the Changeover from the Croatian Kuna to the Euro, the Act on the Introduction of the Euro as the Official Currency in the Republic of Croatia and the amendments to the primary and secondary legislation in the area of payment system, tax system, capital market, financial system and commercial law. Under the two-year project of introducing the euro, HBOR complied in a timely manner with the obligations prescribed by the Act on the Introduction of the Euro as the Official Currency in the Republic of Croatia and successfully completed the project of introducing the euro in HBOR.

### **Pillar Assessment**

As a prerequisite for participating in the indirect management of EU funds, HBOR carried out the Pillar Assessment as defined in Article 154 of the Financial Regulation applicable to the general budget of the European Commission and the European Development Fund. Based on the results of the Pillar Assessment, the European Commission (EC) decides whether to entrust the budget execution tasks to HBOR and conclude special agreements on contributions for indirect management.

Under the pillar-based assessment procedure, HBOR carried out the verification process of the following pillars:

- A. Internal Control
- B. Accounting
- C. External Audit
- D. Financial Instruments
- E. Exclusion from Access to Finance
- F. Personal Data Protection

The process of verifying and testing was completed in November 2022, when the Preliminary Final Report was submitted to the European Commission. The entire process is expected to be completed during 2023.

### **Rating**

After the Council of the EU confirmed the joining of the Republic of Croatia to the Eurozone, and taking into account the benefits of joining the Eurozone, monetary policy of the ECB, better access to capital markets as well as the projected growth of the economy, the rating agency Standard & Poor's raised the rating of the Republic of Croatia at BBB+/A-2 with a stable outlook in July 2022. Consequently, HBOR's rating was also raised to BBB+/A-2 (from BBB-/A-3) with a stable outlook.

### **Co-operation between EIB and HBOR on Pula General Hospital Project**

The Pula General Hospital was officially opened on 28 October 2022. The investment worth more than EUR 100 million was realised with, among others, loan funds approved by HBOR and EIB. The project

included the construction, reconstruction and equipping of the hospital with the most modern medical equipment as well as the complete renovation of the old building. It was initiated with an objective of facilitating the provision of modern health-care services, which would improve the quality of life in Istria significantly.

### **Co-operation between CEB and HBOR**

The Council of Europe Development Bank (CEB) and the Croatian Bank for Reconstruction and Development (HBOR) signed a EUR 200 million loan on 17 May 2022. The proceeds of the CEB's loan would be channelled both directly and indirectly through commercial banks and leasing companies to final borrowers for the partial financing of the development and upgrade of local and regional infrastructure such as water supply, wastewater disposal and treatment networks, local roads, educational, cultural and other municipal facilities. CEB's loan would make it possible to support small and medium-sized enterprises, to create new jobs and preserve the existing ones, and to finance the reconstruction of and equipment for the infrastructure, the improvement of living conditions in urban and rural areas, the assistance to national and local authorities through investment in the reconstruction of the areas affected by natural or ecological disasters, and the support for investments aimed at their prevention.

### **International cooperation and internationalisation**

During 2022, numerous international events took place mostly in hybrid form, and, as a result of simpler organisational requirements made possible by digitisation, HBOR's international cooperation was very dynamic on both multilateral and bilateral levels.

HBOR pays special attention to the establishment and maintenance of successful relations with international financial institutions, development banks, export credit agencies, associations and clubs such as the European Association of Public Banks (EAPB), the European Long Term Investors Association (ELTI) of which HBOR is an establishing member, the International Development Finance Club (IDFC), the Banking Association for Central and Eastern Europe (BACEE), the Berne Union, the Network of European Financial Institutions for SMEs (NEFI), the United Nations Environment Programme Finance Initiative (UNEP FI), the UN Global Compact, and numerous bilateral trade chambers.

Active participation in the activities of international associations enables HBOR to get a better insight into EU development policies and the activities of EU development banks, which results in the gaining of new knowledge useful for the development of new forms of support for Croatian entrepreneurs and the exchange of best practices and specific knowledge among members in different areas of business. Through its international activities, HBOR participates in the development of common positions and lobbying, thus influencing the creation of EU policies and regulations.

HBOR plays a very active role in certain associations of development banks. In June 2022, Hrvoje Čuvalo, President of the Management Board of HBOR, was elected member of the EAPB Administrative Board for a two-year term of office. The new Administrative Board of EAPB intensified the activities of the Association, which started working on a new strategy and organisation as well as thematic guidelines for future activities.

Furthermore, as one of the establishing members of the ELTI, HBOR retained its position in the Management Board for the coming three-year period, thus ensuring the representation of smaller

development banks in the management bodies of this Association and in lobbying for the interests of smaller development banks in the implementation of common European policies.

Through its membership in the IDFC, HBOR continued the implementation of the activities started in connection with the "Joint Declaration of Public Development Banks" and the "Declaration on Gender Equality and Empowerment of Women" signed at the first Summit of Public Development Banks held in Paris at the end of 2020.

Cooperation in the field of internationalisation continued with the Association of Croatian Exporters, at the general assembly of which Hrvoje Čuvalo, President of the Management Board of HBOR, was elected to the Presidency and the Board of Directors for a term of four years.

Internationalisation of the economy was supported through the cooperation of HBOR's representatives with the Croatian Chamber of Economy, the Ministry of Foreign and European Affairs and through the cooperation with foreign chambers in the Republic of Croatia.

In 2022, HBOR signed a Memorandum of Understanding with the PJSC ECA Ukraine, the Ukrainian government agency that performs export credit insurance activities, and provided support to this institution in the difficult times caused by the war in Ukraine.

During 2022, HBOR actively participated in the meetings of the Export Credits Group of the Council of the European Union and in the meetings of the Participants to the OECD Arrangement, where it made a significant contribution as an expert member of the Croatian delegation. The activities of the ECG are very dynamic, especially relating to the negotiations on the modernisation of the OECD Arrangement on Officially Supported Export Credits, the activities aimed at the adoption of the European export finance strategy for the strengthening of competitiveness of the European entrepreneurs in the global markets as well as the activities related to the green transition through further gradual reduction in official support for coal-fired power plants.

In addition to the above, HBOR participated in the activities of the informal forum of export credit agencies (ECA) at the level of the European Union called EU Heads of ECA Forum. The goal of this forum, which primarily gathers the heads of export credit agencies, is to provide a high-level exchange platform covering the need for changes within the framework of ECA activities, to increase their visibility, to ensure better information to the public and governments about their role and contribution to the economies of the countries in which they operate, and to encourage exchange of knowledge and good practices they encounter in their business operations.

During 2022, HBOR continued to be an active member of the Berne Union – the world's largest association of export credit insurers with 85 members from all over the world. HBOR is a member of one of the four operational committees of the Berne Union: the Prague Club Committee. In 2022, HBOR's representatives actively participated in the Berne Union Spring Meeting that took place in Istanbul in May and in five thematic specialist meetings (covering digitalisation, indemnities, recoveries, support to small and medium-sized exporters, premium rates and ratings of clients in the context of medium-term to long-term insurance transactions as well as in the meeting for new employees).

### **Personal data protection**

In 2022, HBOR continued with updating and supplementing the Register of Personal Data Processing Activities, adjusting business processes to the GDPR and reducing redundancy in data processing through harmonisation of business applications. Furthermore, HBOR conducted several internal employee trainings and several assessments of the impact on data protection in terms of riskier treatment. Changes in the manner of personal data processing for the purpose of harmonisation with the GDPR have additionally reduced the risks of processing personal data of HBOR's employees and clients.

## **Function of preventing money laundering and terrorist financing**

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

## **Regional offices**

During 2022, HBOR's Regional Offices (in Gospić, Osijek, Pula, Rijeka, Split and Varaždin) implemented the planned activities in the segments of contacts, presentations and education as well as initiation of lending activities proportional to the lending activities at the level of HBOR as a whole. In the performance of the planned activities, the Regional Offices continued to successfully cooperate with the offices for the economy of local government units, with the relevant chambers of commerce, chambers of trades and crafts, entrepreneurial centres, development agencies and local action groups. The majority of activities continued to focus on advising and informing entrepreneurs on the use of HBOR's products as a source of finance for investments in business start-ups, growth and development. Regional Offices are considered to be an important distribution channel for HBOR's products, especially in the context of activities under the National Recovery and Resilience Plan, implementation activities of the Operational Programmes of HBOR's Business Strategy and the programmes under the Temporary Crisis Framework (TCF).

## **Public disclosure of activities**

HBOR puts a special focus on providing information to the public about the goals of its operations and about the measures for their attainment as well as about the results of its activities by simultaneously following the principle of bank secrecy and its function. Therefore, through various forms of providing information, HBOR regularly informed the public about all its important activities in 2022.

During the reporting period, 19 public procurement procedures were published in the Electronic Public Procurement Classifieds. Since 1 July 2017, simple procurement procedures have also been published on HBOR's websites, and since 1 January 2022, all simple procurement procedures with an estimated procurement value equal to or greater than HRK 20 thousand have been published in the Electronic Public Procurement Classifieds.

In 2022, altogether 13 requests for access to information pursuant to the Act on the Right of Access to Information were received.

## **OPERATIONS OF HRVATSKO KREDITNO OSIGURANJE GROUP**

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

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

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

As at 31 December 2022, there were 20 employees at HKO Group, of which 14 were employed with Hrvatsko kreditno osiguranje d.d. and 6 with PIS. Eighteen employees had university degrees and two had secondary school education.

#### **Ownership structure**

HKO is 100% owned by the Croatian Bank for Reconstruction and Development.

#### **Management**

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

#### **People authorised to represent**

##### **Management Board in 2022:**

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

##### **Supervisory Board of HKO**

In 2022, the Supervisory Board of HKO was comprised of the following members:

- Vedran Jakšić, Chairman of the Supervisory Board, until 3 January 2023
- Andreja Mergeduš, Deputy Chairman of the Supervisory Board
- Ante Artuković, Member of the Supervisory Board
- Gordan Kuvek, Member of the Supervisory Board
- Marija Jerkić, Member of the Supervisory Board

On 3 February 2023, the Croatian Financial Services Supervisory Agency passed a resolution, by means of which an approval was issued for Marin Pranjić for performing the function of a member of the Supervisory Board.

**Poslovni info servis d.o.o.**

Jelena Boromisa performed the function of the Manager of PIS.

Ivana Paić was the authorised representative of the Company.

**Audit Committee of HKO**

In 2022, the Audit Committee of HKO was comprised of the following members:

- Ante Artuković, Chairman of the Audit Committee,
- Vedran Jakšić, Deputy Chairman of the Audit Committee, until 19 December 2022,
- Andreja Mergeduš, Deputy Chairman of the Audit Committee, from 19 December 2022,
- Andreja Svečnjak, Member of the Audit Committee.

**Reporting to the supervisory bodies**

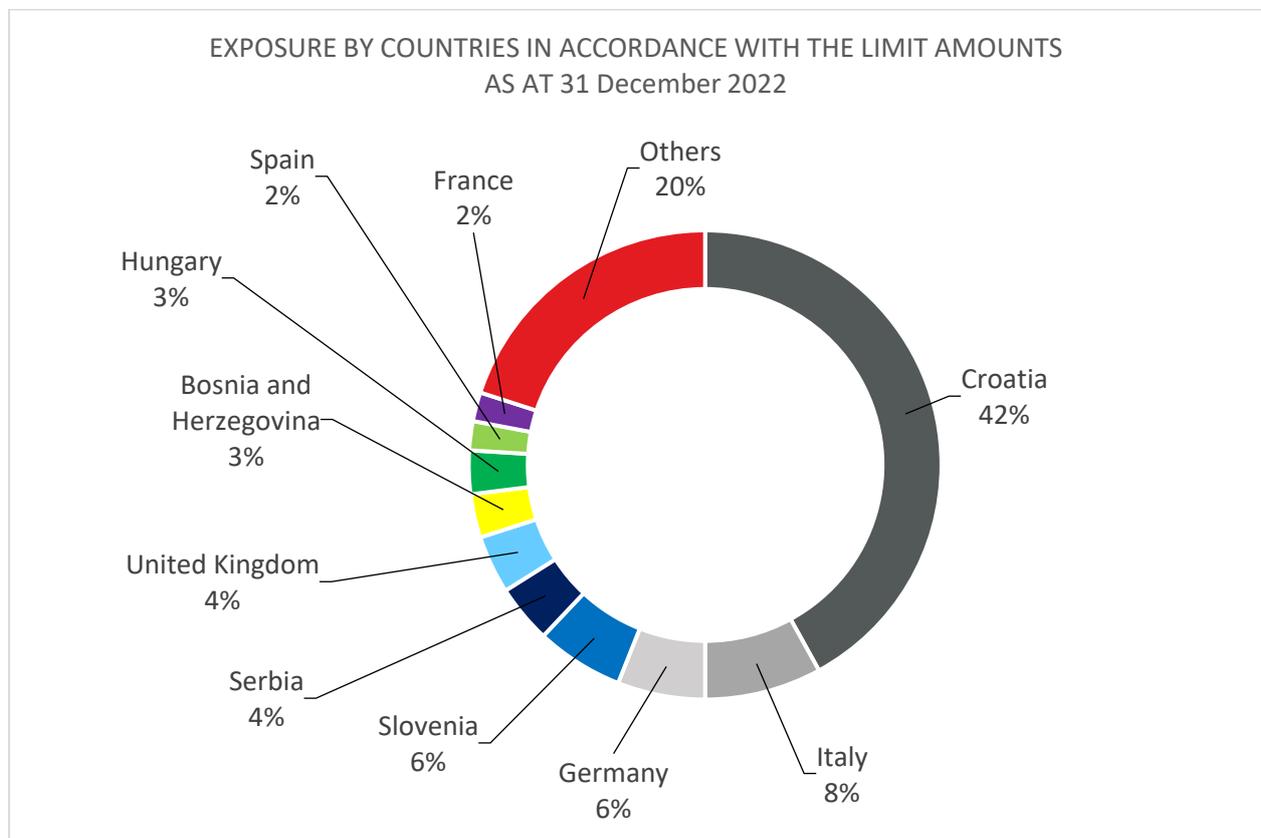
In 2022, the Company provided regular reports to the supervisory bodies on all relevant facts and changes in the Company pursuant to the Insurance Act, the ordinances of the Croatian Financial Services Supervisory Agency and other regulations in force. The Company regularly met all requirements of the supervisory bodies in terms of control of operations and submission of the Company's data.

## OPERATIONS IN 2022

In 2022, Hrvatsko kreditno osiguranje d.d. generated premium income of HRK 19.7 million, an increase of 11.91 percent on the previous year. Export receivables accounted for 53.7 percent of the total premium income. In 2022, the total reported insured turnover amounted to HRK 12.9 billion, an increase of 20.1 percent on the previous year.

As at 31 December 2022, total exposure in accordance with the approved limits by buyers stood at HRK 5 billion, an increase of 15.98 percent compared with 31 December 2021.

As at 31 December 2022, altogether 7,796 credit limits were covered by the insurance, an increase of 1.44 percent on the previous year. Within the total structure of limits, 4,929 credit limits were related to domestic receivables and 2,867 credit limits were related to export receivables towards 66 countries of the world.



In 2022, the Company paid indemnities and related cost coverage in the total amount of HRK 6.32 million, whereas the amount of paid indemnities in the previous year equalled HRK 2.29 million. The indemnities were paid for buyers in Croatia, Hungary, Bosnia and Herzegovina, Great Britain, Slovenia and the United States of America.

### Insurance business indicators

	2020	2021	2022
<b>Volume of insured receivables, in HRK million</b>	7,290.66	10,711.02	12,865.34
<b>Exposure to buyers, as at 31 December, in HRK million</b>	3,574.09	4,338.13	5,031.31
<b>Gross premium charged, in HRK million</b>	13.08	17.61	19.71
<b>Amount of indemnities paid, in HRK million</b>	0.97	2.29	6.32
<b>Number of active limits as at 31 December</b>	7,336	7,685	7,796

Acquisition costs, marketing costs, administration costs and other operating expenses of the HKO Group in 2022 amounted to HRK 8.73 million, whereas, at the Company level, they amounted to HRK 7.17 million.

Risk assessment fee income stood at HRK 2.02 million, whereas they amounted to HRK 1.89 million in 2021.

Net investment income in 2022 stood at HRK 1.34 million (1.21 million in 2021).

At the end of the business year 2022, the HKO Group recorded profit before taxes for the year in the amount of HRK 1.34 million, whereas 2021 was ended with a profit before taxes for the year of HRK 2.18 million.

As at 31 December 2022, the total assets of the HKO Group amounted to HRK 84.04 million, an increase of 30.26 percent on the previous year. The most important reason for the increase is the rise in capitalisation made by the owner, HBOR, in the amount of HRK 20 million.

As at 31 December 2022, the total capital amounted to HRK 56.92 million and net technical reserves to HRK 16.61 million.

## PRINCIPLES OF FINANCIAL REPORTING

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The HBOR Group prepares:

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

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

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

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

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

## OVERVIEW OF FINANCIAL PERFORMANCE IN 2022

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

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

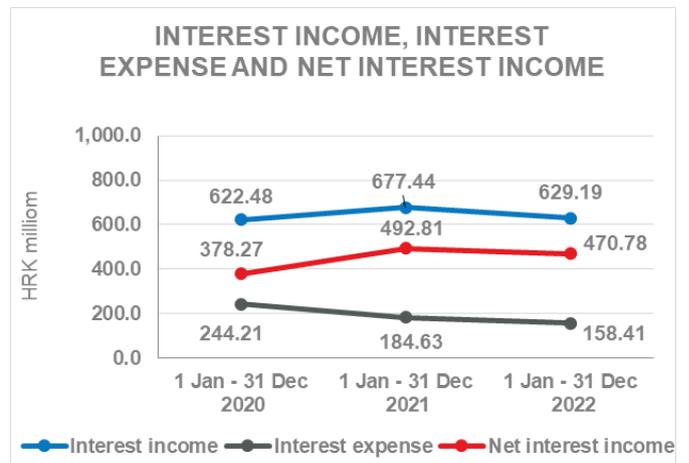
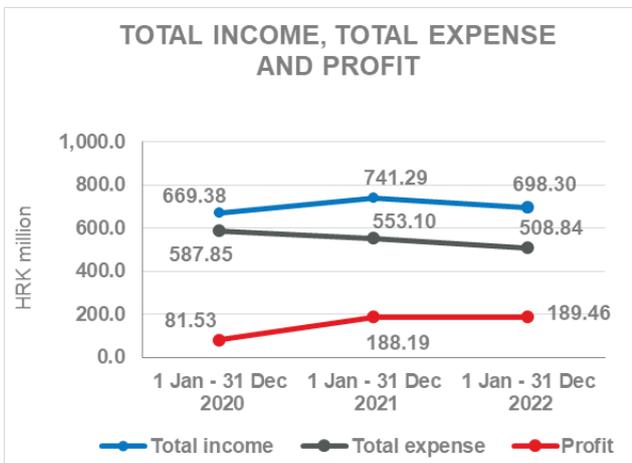
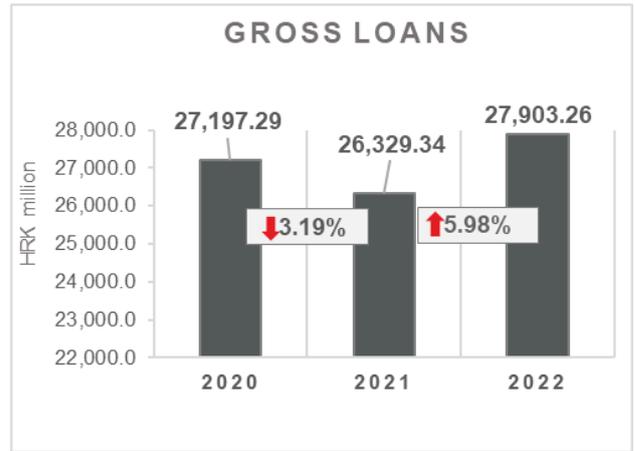
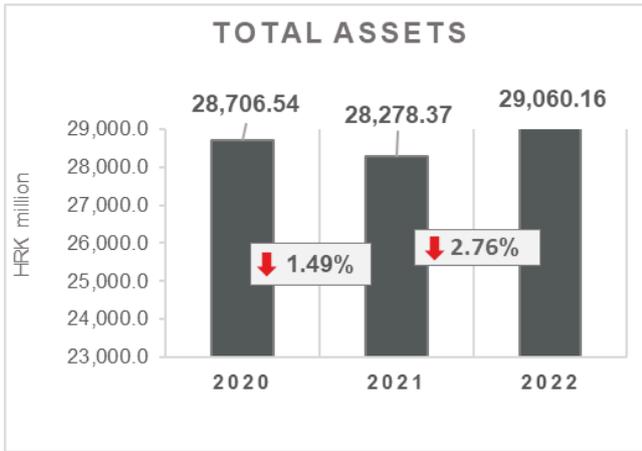
The separate and consolidated Annual Financial Statements of HBOR for 2022, which can be found enclosed, have been audited by the audit companies BDO Croatia d.o.o. and PKF FACT Revizija d.o.o., that expressed an unqualified opinion in the common Independent Auditor's Report.

## OVERVIEW OF FINANCIAL OPERATIONS OF THE GROUP

Having in mind the size of the subsidiary companies and the volume of their operations compared with the operations of the parent company, their financial data are not significant so as to be particularly highlighted within the framework of the consolidated financial statements. Consequently, they do not have a material effect on the consolidated financial statements in comparison with the separate statements of HBOR as the parent company. The HKO Group represents only 0.29 percent of the parent company's assets.

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

	2020	2021	2022
<b>Total assets</b>	28,706.54	28,278.37	29,060.16
<b>Gross loans</b>	27,197.29	26,329.34	27,903.26
<b>Total equity</b>	10,363.76	10,576.79	10,715.03
<b>Total income</b>	669.38	741.29	698.30
<b>Total expense</b>	(587.85)	(553.10)	(508.84)
<b>Profit</b>	81.53	188.19	189.46
<b>Interest income calculated on the basis of effective interest rate method</b>	622.48	677.44	629.19
<b>Interest expense</b>	(244.21)	(184.63)	(158.41)
<b>Net interest income</b>	378.27	492.81	470.78



## **Results of the Group**

In 2022, the HBOR Group generated profit after tax in the amount of HRK 189.46 million. The recorded profit is by 0.67 percent higher as compared to the previous year, and the reasons are stated in the description of HBOR's financial performance.

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

In 2022, total income on consolidated basis amounted to HRK 698.30 million, whereas total expenses amounted to HRK 508.84 million.

In the structure of income of the HBOR Group, the largest portion, i.e. 90.10 percent, relates to interest income as a result of operation of the parent company.

The major part of total expenses relates to operating expenses of 39.61 percent and interest expenses of 31.13 percent as a result of operation of the parent company.

The consolidated operating expenses in 2022 amounted to HRK 201.57 million and consisted of general and administrative expenses and other operating expenses.

There were 402 employees in the Group on 31 December 2022, whereas there had been 394 employees in the Group at the end of 2021.

## **Assets and liabilities of the Group**

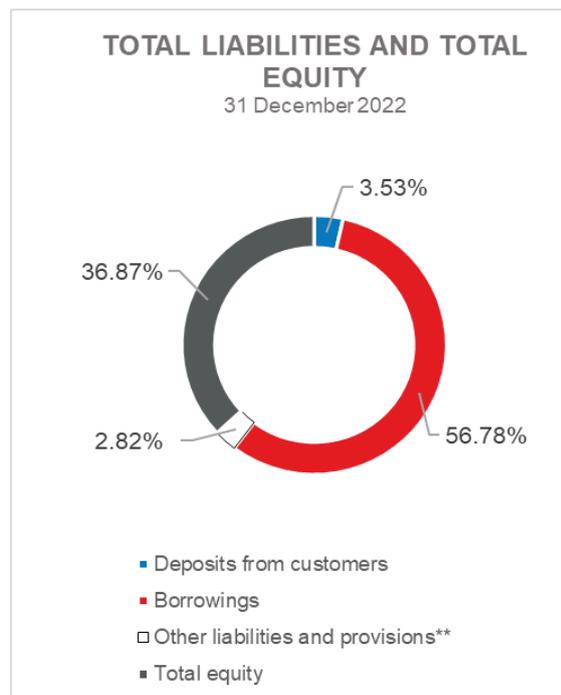
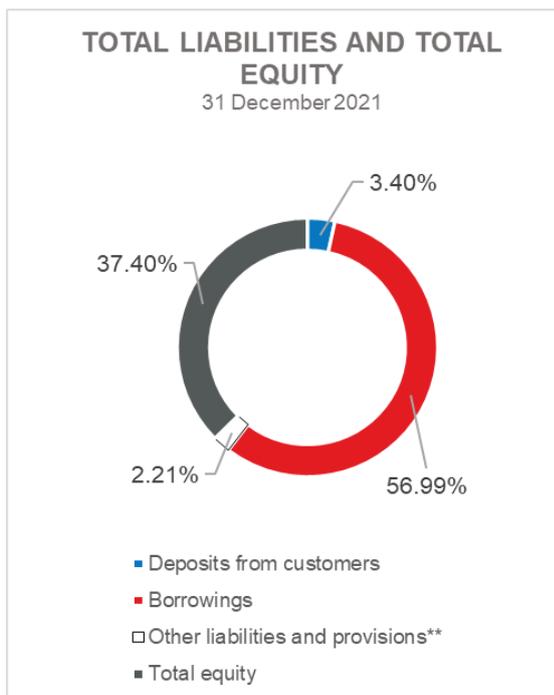
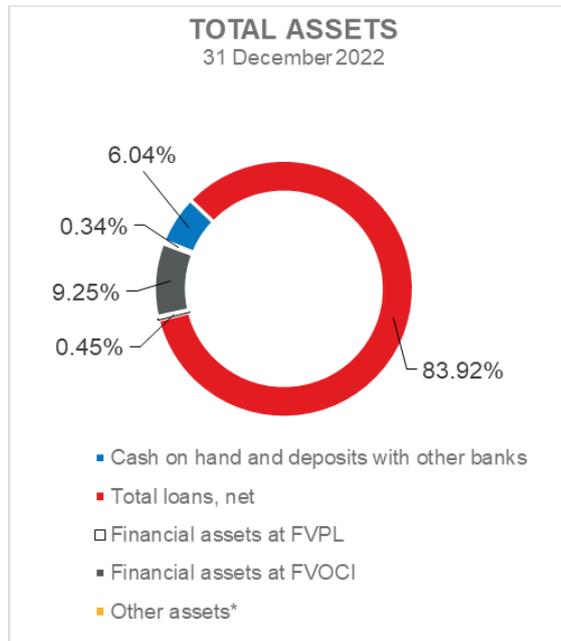
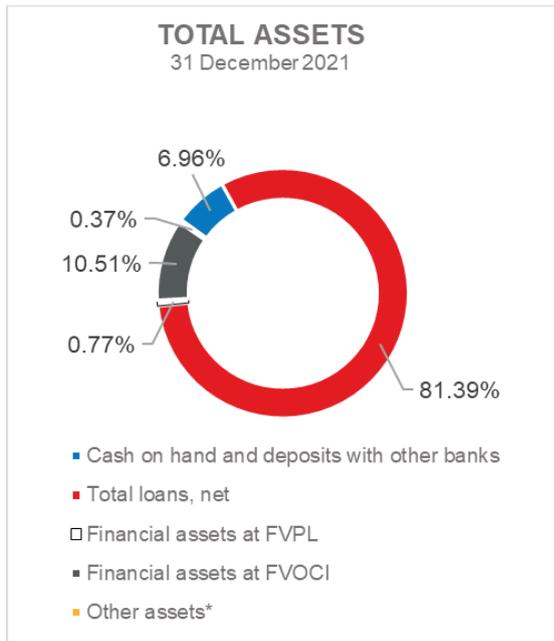
Total assets of the Group on consolidated basis amount to HRK 29,060.16 million, an increase of 2.76 percent compared with the beginning of the year. The reasons for such tendency are given in the description of financial operations of HBOR.

In the structure of assets, the major portion relates to the lending activities of the parent company, i.e. net loans account for 83.92 percent of total assets.

Total liabilities and total equity as at 31 December 2022 amount to HRK 29,060.16 million and, out of this amount, total liabilities amount to HRK 18,345.13 million, i.e. 63.13 percent.

In total liabilities and total equity of the Group, the major portion, i.e. 56.78 percent, consists of borrowings of the parent company.

At the end of 2022, total equity on consolidated basis amounted to HRK 10,715.03 million and accounted for 36.87 percent of total liabilities and total equity of the Group.



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

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

## OVERVIEW OF FINANCIAL PERFORMANCE OF HBOR

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

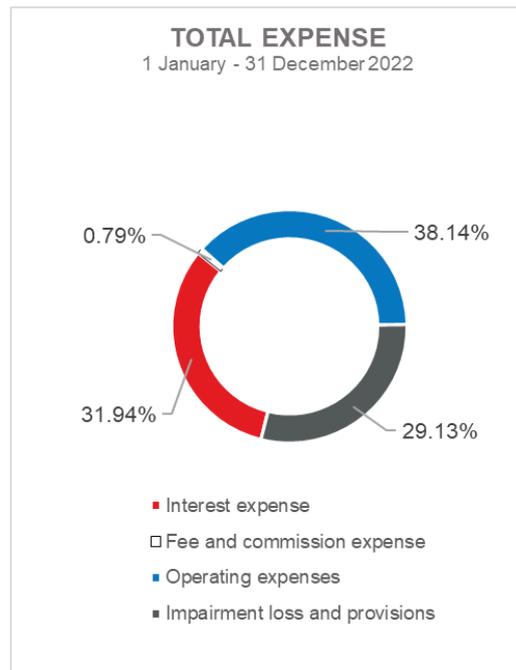
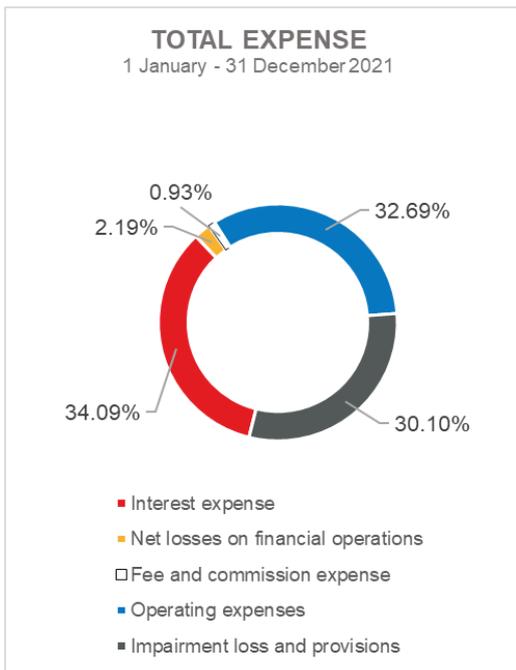
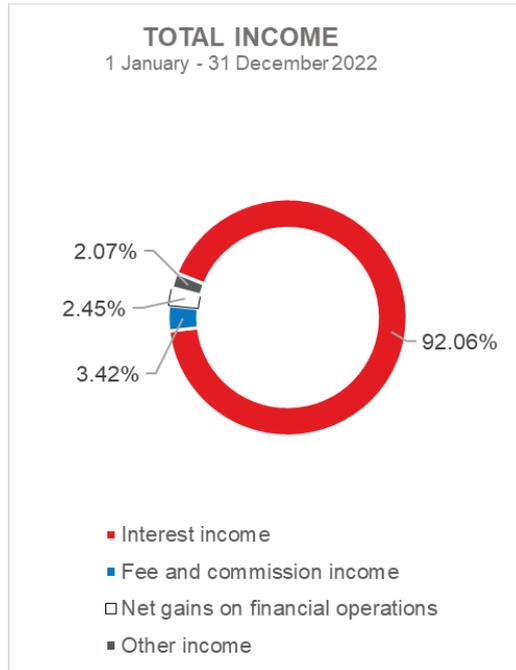
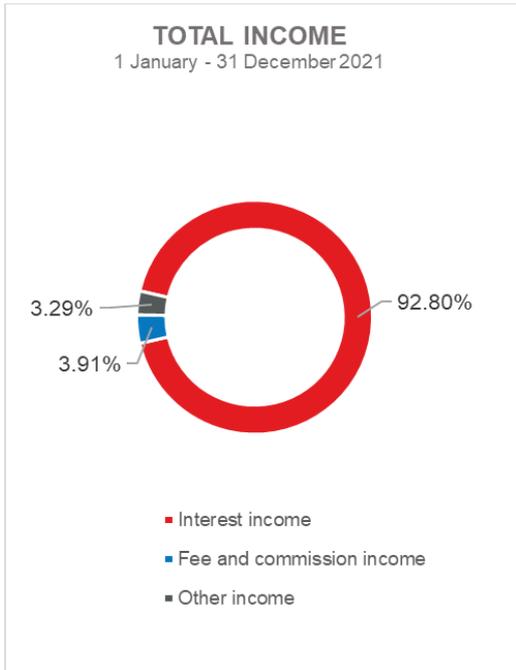
### Financial performance

In 2022, HBOR generated total income of HRK 682.07 million, expenses in the amount to HRK 495.90 million and profit in the amount of HRK 186.17 million. HBOR's profit generated in 2022 decreased by HRK 0.91 million compared with the profit generated in 2021, i.e. by 0.49 percent.

The circumstances which resulted in the decreased profit generated in 2022 compared to the profit generated in 2021 are as follows:

- decrease in interest income of HRK 48.29 million,
- decrease in interest expenses of HRK 26.20 million,
- decrease in fee and commission net income of HRK 4.05 million,
- increase in net gains on financial operations of HRK 28.57 million (in 2022, net gains on financial operations amounted to HRK 16.73 million, whereas in 2021, net losses on financial operations amounted to HRK 11.84 million),
- increase in operating expenses of HRK 12.10 million,
- decrease in losses from impairment and provisions of HRK 18.57 million in comparison with 2021,
- decrease in other income of HRK 9.81 million.

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



### ***Net interest income***

Net interest income amounted to HRK 469.47 million, a decrease of 4.49 percent on the same period of the previous reporting year due to a decrease in interest income of HRK 48.29 million and a decrease in interest expenses of HRK 26.20 million.

Interest income calculated on the basis of the effective interest rate method amounted to HRK 627.88 million, a decrease of 7.14 percent on the same reporting period last year, mostly due to a lower effective interest rate in 2022 as compared to that in 2021.

Interest expenses amounted to HRK 158.41 million, a decrease of 14.19 percent on the same reporting period last year, which was mostly affected by the repayment of borrowings.

Having in mind the described trends in interest income and interest expenses, net interest margin decreased by 0.09 percentage points compared with the same reporting period last year and stood at 1.64 percent.

### ***Net fee and commission income***

Net fee and commission income amounted to HRK 19.39 million, a decrease of 17.28 percent compared with the previous year due to a larger decrease in fee and commission income of HRK 5.20 million compared with the decrease in fee and commission expenses of HRK 1.15 million. The decrease in fee and commission income is a result of a decrease in fee income under agent transactions performed for and on behalf of principal.

Under the contract with the principal, HBOR recorded income on the basis of rights to management fees in 2020 and 2021. In 2022, the management fee was verified and HBOR could not completely justify the income by its internal costs and, therefore, recorded the unjustified part of the fee as an expense upon recalculation.

### **Net gains/(losses) on financial operations**

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

In the reporting period, net gains on financial operations amounted to HRK 16.73 million, whereas in the previous year, net losses amounted to HRK 11.84 million.

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



Note:

D = HRK depreciation 2022/2021

D = HRK depreciation 2022/2021

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

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

### **Operating expenses**

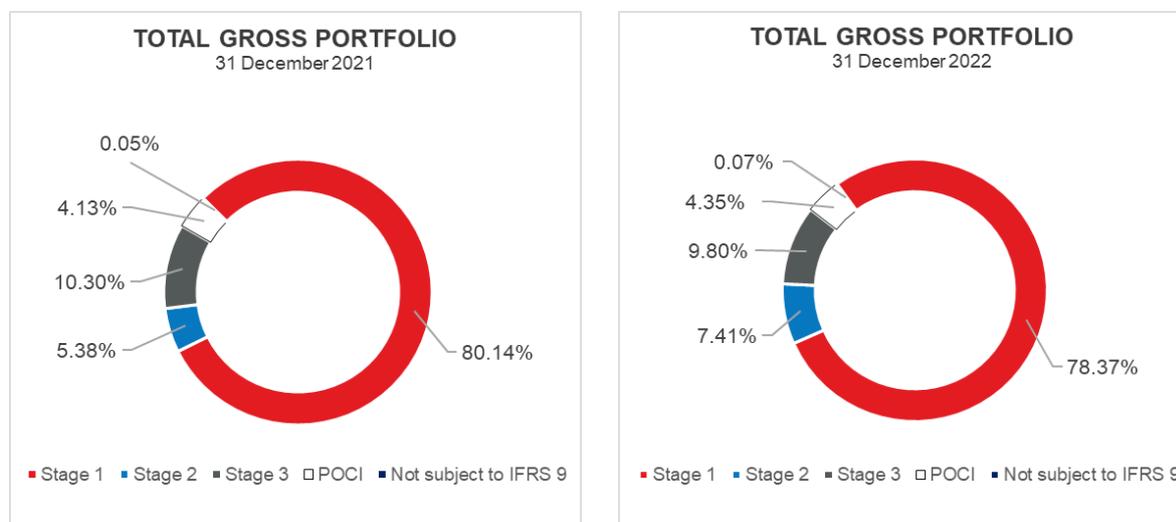
Operating expenses that include general and administrative expenses and other operating expenses stood at HRK 189.15 million, an increase of 6.83 percent compared with the previous year, mostly as a result of an increase in the costs of recalculation and the costs of write-off of receivables under financial instruments by HRK 12.42 million.

At the end of 2022, the total number of employees was 382 (on 31 December 2021: 375 employees).

### Impairment gain/(loss) and provisions

In the reporting period, placement impairment net losses stood at HRK 144.43 million, whereas in the previous year, they stood at HRK 163.00 million.

The text to follow contains a breakdown of portfolio quality:



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

	2021		2022	
	Amount	Breakdown (%)	Amount	Breakdown (%)
<b>Total gross portfolio, HRK million</b>	<b>35,412.68</b>	<b>100.00</b>	<b>35,479.17</b>	<b>100.00</b>
<b>Of which:</b>				
- financial institutions	10,898.97	30.78	9,970.66	28.10
- direct	24,513.71	69.22	25,508.51	71.90
<b>Total provisions, HRK million</b>	<b>3,477.90</b>	<b>100.00</b>	<b>3,637.85</b>	<b>100.00</b>
<b>Of which:</b>				
- financial institutions	63.41	1.82	68.26	1.88
- direct	3,414.49	98.18	3,569.59	98.12
<b>Provisions/gross portfolio</b>	<b>9.82 percent</b>	<b>-</b>	<b>10.25 percent</b>	<b>-</b>

## **Significant changes in financial position**

Total assets of HBOR as at 31 December 2022 amounted to HRK 29,032.31 million, an increase of 2.77 percent compared with 2021 due to an increase in placements to other borrowers.

### ***Cash on hand and deposits with other banks***

At the end of 2022, cash on hand and deposits with other banks amounted to HRK 1,727.12 million representing 5.95 percent of total assets, a decrease of 12.16 percent compared with the previous year.

### ***Loans to financial institutions and other customers***

Total net loans increased by 5.97 percent on the previous year and stood at HRK 24,387.38 million at the end of 2022 representing 84.00 percent of total assets.

Total gross loans amounted to HRK 27,903.26 million, an increase of 5.98 percent compared with the previous year. Gross loans to other customers increased by 8.52 percent compared with the beginning of the year, mostly as a result of disbursements of working capital loans, loans under COVID-19 measures, public sector investments and private sector investments. Gross loans to financial institutions decreased by 0.89 percent on the previous year.

At the end of 2022, the proportion between gross loans on-lent through financial institutions and direct placements stood at 25.25 percent : 74.75 percent.

### ***Financial assets at fair value through profit or loss***

Loans at fair value (pursuant to HBOR's decision, mezzanine loans are classified to this category), investments in investment funds and a part of equity instruments are classified to these assets. As at 31 December 2022, the total amount of these assets equalled HRK 131.52 million representing 0.45 percent of total assets.

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

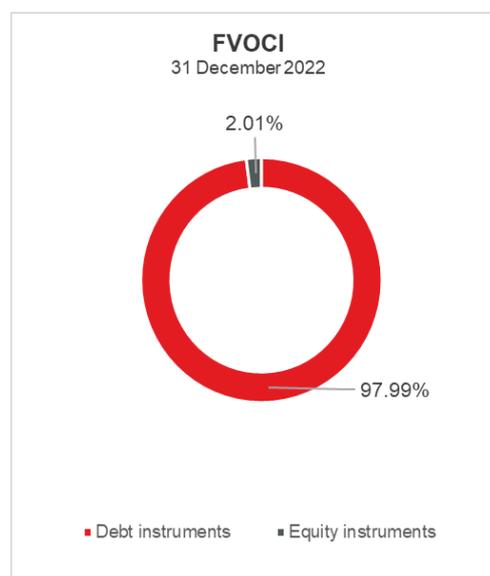
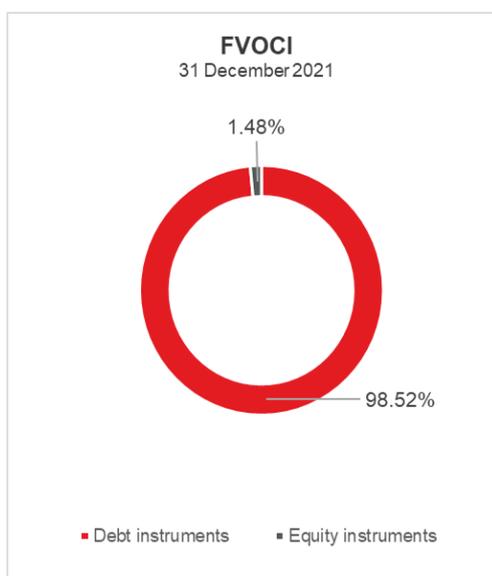
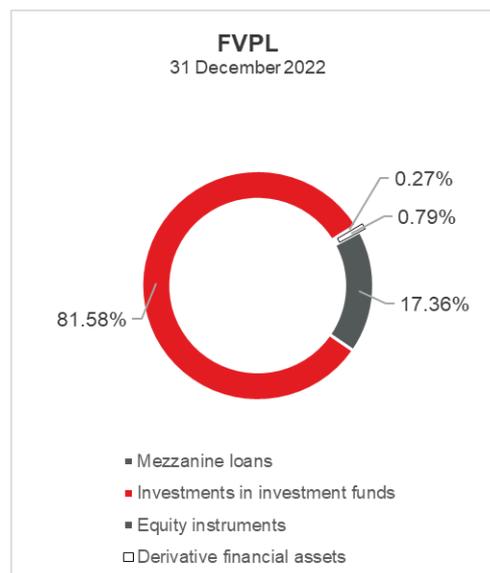
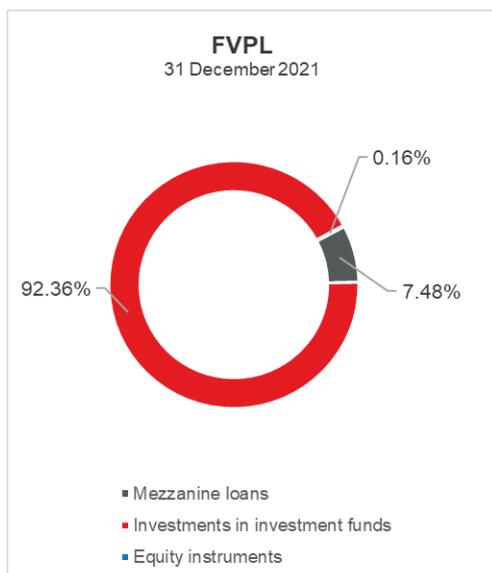
#### ***a) Debt securities***

Bonds of the Republic of Croatia and of companies, and treasury bills of the Ministry of Finance as part of liquidity reserve are classified to these assets. On the reporting date, they amounted to HRK 2,586.30 million, representing 8.91 percent of total assets. The impairment of these financial assets is calculated through the application of the model of expected credit losses in the manner that provisions are recognised in the accounts of other comprehensive income, thus not reducing the carrying amount of these financial assets in the statement on financial position. On the reporting date, they amounted to HRK 4.57 million in other reserves.

#### ***b) Equity instruments***

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

On the reporting date, these assets amounted to HRK 53.17 million, representing 0.18 percent of total assets.



### **Total liabilities**

At the end of 2022, total liabilities amounted to HRK 18,321.71 million, which represents 63.11 percent of total liabilities and total equity. A major part of total liabilities consists of HBOR's borrowings in the total amount of HRK 16,501.28 million.

Borrowings increased by 2.40 percent compared with the beginning of the year, whereas changes in these liabilities are shown in the table below:

	(HRK million)
- Draw-down of funds borrowed under previously contracted funds of special financial institutions and Ministry of Finance loan	2,981.14
- Repayment of borrowings and bonds payable	(2,631.69)
- Foreign exchange gains or losses	45.68
- Other calculations*	(9.09)
<b>Total changes</b>	<b>386.04</b>

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

In 2022, HBOR continued to raise funds, and on 17 May 2022, a EUR 200 million loan to foster economic growth and support earthquake recovery and reconstruction efforts in Croatia was signed with the Council of Europe Development Bank (CEB). The loan funds will be used for the financing under current loan programmes, but also for projects that will be financed under the National Recovery and Resilience Plan (NRRP).

The CEB loan will be channelled through HBOR directly to final borrowers to partially finance the development and upgrading of local and regional infrastructure, such as water supply, wastewater disposal and treatment networks, local roads, educational, cultural and other municipal facilities.

In addition, the loan will allow HBOR to support micro, small and medium-sized enterprises, create new jobs and preserve the existing ones, and to finance the reconstruction and retrofitting of the infrastructure and buildings damaged by the earthquake.

Furthermore, on 14 October 2022, HBOR signed a HRK 1,000,000 thousand general purpose loan contract with the Republic of Croatia – Ministry of Finance.

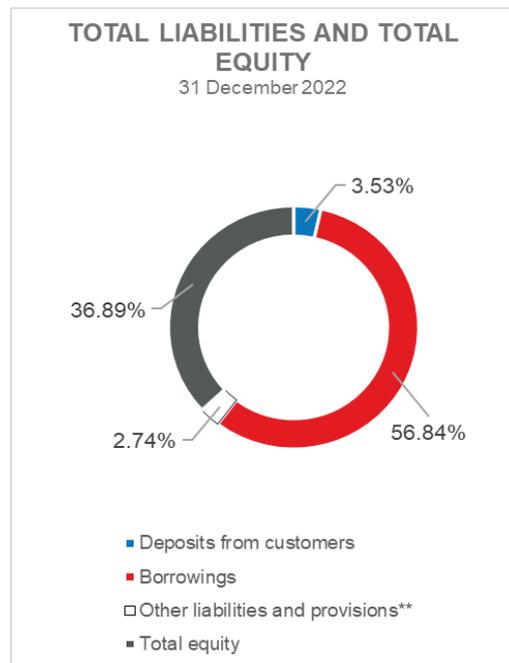
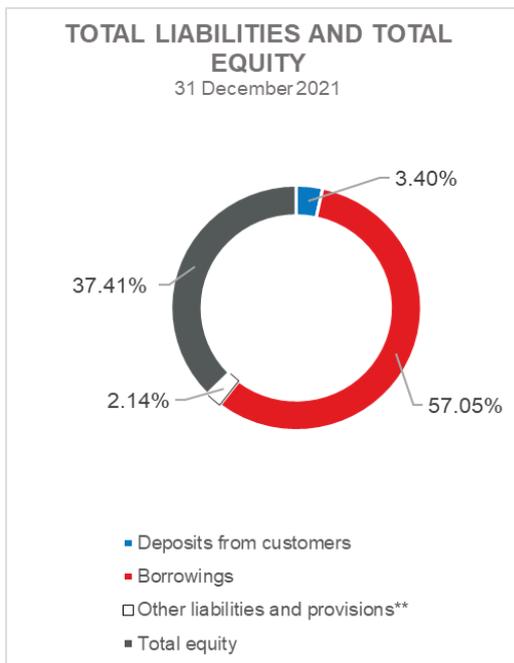
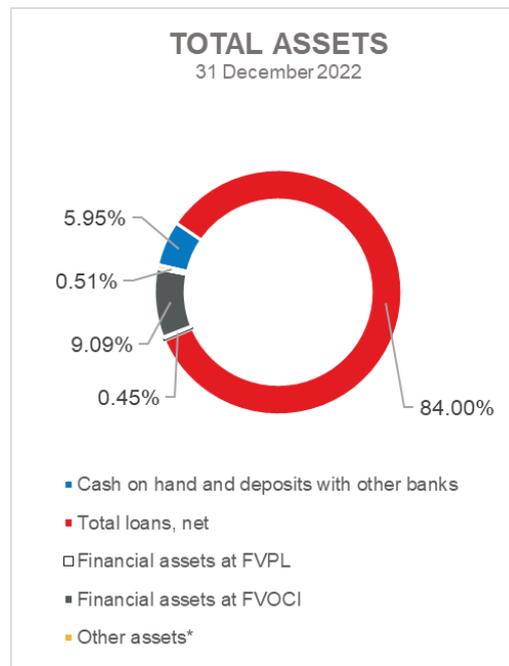
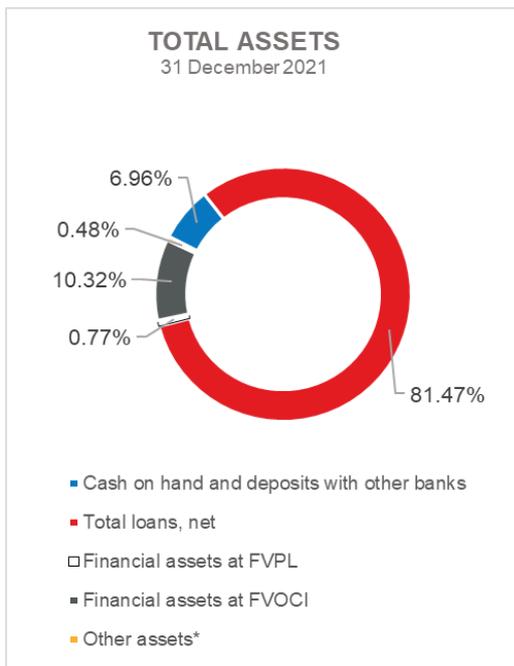
### ***Total equity***

Total equity amounted to HRK 10,710.60 million, representing 36.89 percent of total liabilities and total equity.

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

In the reporting period, the amount of HRK 20.00 million was contributed from the budget of the Republic of Croatia into the founder's capital. At the end of 2022, the total amount of capital contributed from the budget of the Republic of Croatia stood at HRK 6,778.00 million, and the remaining amount to be contributed to the founder's capital up to the total amount of HRK 7,000.00 million set by the HBOR Act is HRK 222.00 million.

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



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

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

**CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT**

Annual financial statements for 2022

Zagreb, March 2023

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

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

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

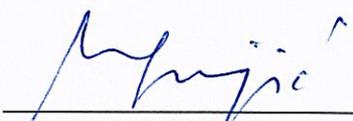
The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making judgments and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is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

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

The separate and consolidated financial statements set out on pages 72 to 226 were authorised by the Management Board on 23 March 2023 for issue to the Supervisory Board and are signed below to signify this.

The Management Board is also responsible for the preparation and content of the Management Report and Statement on the Code of Corporate Governance Application as required by the Croatian Accounting Law, and other information (together “other information”). The Management Report presented on pages 4 to 5, Statement on the Code of Corporate Governance Application presented on pages 6 to 9 and other information presented on pages 10 to 60 were approved by the Management Board on 23 March 2023.

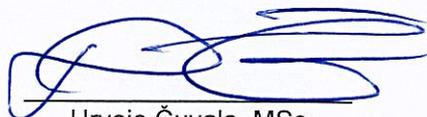
Signed on behalf of the Croatian Bank for Reconstruction and Development



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Marin Pranjić

**Accounting Division Executive Director**



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Hrvoje Čuvalo, MSc

**President of the Management Board**



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Alan Herjavec, MSc

**Member of the Management Board**



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Josip Pavković

**Member of the Management Board**

Zagreb, 23 March 2023



## **INDEPENDENT JOINT AUDITOR'S REPORT TO THE OWNER OF CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT**

### **Report on the Audit of the separate and consolidated Financial Statements**

#### **Opinion**

We have audited the annual separate financial statements of Croatian Bank for Reconstruction and Development ("the Bank") and the consolidated financial statements of the Bank and its subsidiary ("the Group"), which comprise the separate and consolidated statements of financial position of the Bank and the Group, respectively, as at 31 December 2022, and their respective separate and consolidated statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year then ended, and notes to the annual financial statements, comprising significant accounting policies.

In our opinion, the accompanying annual separate and consolidated financial statements give a true and fair view of the separate financial position of the Bank and consolidated financial position of the Group as at 31 December 2022 and of their respective separate and consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the annual separate and consolidated Financial Statements. We are independent of the Bank and the Group in accordance with the International Code of Ethics for Professional Accountants, including the International Standards of Independence issued by the International Ethical Standards Board for Accountants ("IESBA", "IESBA Code") and have fulfilled our other ethical responsibilities in accordance with IESBA Code.

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

**INDEPENDENT JOINT AUDITOR'S REPORT TO THE OWNER OF CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (CONTINUED)**

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

**Key Audit Matters**

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

Impairment of loans to other customers	
<p>As at 31 December 2022, in the financial statements of the Bank and the Group, gross loans to other customers: HRK 20,858 million, related impairment allowance: HRK 3,455 million and impairment loss recognised in the income statement for the year then ended: HRK 130 million (31 December 2021: gross loans to other customers: HRK 19,220 million, impairment allowance: HRK 3,256 million, impairment loss recognised in the income statement for the year ended 31 December 2021: HRK 78 million).</p> <p>Please refer to note 1.3. The impact of the crisis caused by the Russian-Ukrainian war, 4 Summary of significant accounting policies, note 10 Impairment loss and provisions, note 15 Loans to other customers and credit risk section of the note 32 Risk management</p>	
Key audit matter	How our audit addressed the matter
<p>Loss allowances represent the Management Board's best estimate of the expected credit losses ("ECLs") within loans to other customers at the reporting date. We focused on this area as the determination of loss allowances requires a significant judgment over the amounts of any such impairment.</p> <p>Impairment allowances for performing exposures (Stage 1 and Stage 2) and non-performing exposures (Stage 3) up to HRK 3 million individually are determined by modelling techniques ("collective impairment allowance"). These collective impairment models rely on a number of parameters such as the probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account historical experience, identification of exposures with a significant increase in credit risk, forward-looking information and management judgment.</p> <p>For non-performing exposures exceeding HRK 3 million individually, the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. Related loss allowances are determined on an individual basis by means of a discounted cash flows analysis.</p>	<p>Our audit procedures in this area, performed with the assistance from our own financial instruments and information technology (IT) specialists, included, among others:</p> <ul style="list-style-type: none"> <li>• Consideration of a business model for financial asset management and review of placement groups;</li> <li>• Acquiring the functioning of internal control systems in relation to the process of assessing the required impairment of loans granted to the Bank's clients;</li> <li>• Inquiring of the risk management and IT personnel to update our understanding of the loan provisioning process, IT applications used therein, key data sources and assumptions for data used in the ECL model. Also, assessing and testing of IT control environment for data security and access;</li> <li>• Inspecting the Bank's and the Group's impairment provisioning methods and models, and assessing their continued compliance with the relevant requirements of the financial reporting standards;</li> <li>• Testing the design, implementation and operating effectiveness of selected controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the identification of events of default, appropriateness of the classification of exposures into performing and non-performing and their segmentation into homogenous groups, calculation of days past due, collateral valuations and calculation of the loss allowances;</li> </ul>

**INDEPENDENT JOINT AUDITOR'S REPORT TO THE OWNER OF CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (CONTINUED)**

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

**Key Audit Matters (continued)**

Impairment of loans to other customers (continued)	
Key audit matter	How our audit addressed the matter
<p>For the above reasons, impairment of loans to other customers was determined by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered this area to be our key audit matter.</p>	<ul style="list-style-type: none"> <li>• Selecting a sample of individual exposures, with focus on those exposures with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk, such as watchlisted, restructured or rescheduled exposures, loans to clients operating in higher risk industries, non-performing exposures with low provision coverage and loans with significant change in the provision coverage;</li> <li>• For the sample selected, critically assessing, by reference to the underlying documentation (loan files) and through inquiries of the Bank's and the Group's loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2022;</li> </ul> <p>For loss allowance calculated individually, our audit procedures included:</p> <ul style="list-style-type: none"> <li>• For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Bank's and the Group's estimates of future cash flows used in the impairment calculation, such as discount rates, collateral values and realization period by reference to publicly available resources and historical experience. We sought the Management Board's explanations for any material discrepancies identified.</li> </ul> <p>For loss allowance calculated on a collective basis, our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Assessing whether the definition of default and the relevant staging criteria were appropriate and consistently applied.</li> <li>• Obtaining the relevant forward-looking information and macroeconomic forecasts used in the Bank's and the Group's ECL estimate. Independently assessing the information by reference to publicly available sources.</li> </ul>

**INDEPENDENT JOINT AUDITOR'S REPORT TO THE OWNER OF CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (CONTINUED)**

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

**Key Audit Matters (continued)**

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

## INDEPENDENT JOINT AUDITOR'S REPORT TO THE OWNER OF CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (CONTINUED)

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

#### Other Information

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

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

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

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

Based solely on the of procedures performed to the extent that we are able to assess, we report that:

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

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

## **INDEPENDENT JOINT AUDITOR'S REPORT TO THE OWNER OF CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (CONTINUED)**

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

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

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

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

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

#### **Auditor's Responsibilities for the Audit of the annual separate and consolidated Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the annual separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

**INDEPENDENT JOINT AUDITOR'S REPORT TO THE OWNER OF CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (CONTINUED)**

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

**Auditor's Responsibilities for the Audit of the annual separate and consolidated Financial Statements (continued)**

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the annual separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank and/or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual separate and consolidated financial statements, including the disclosures, and whether the annual separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the annual consolidated financial statements of the Group. We remain solely responsible for our audit opinion.

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

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

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

**INDEPENDENT JOINT AUDITOR'S REPORT TO THE OWNER OF CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (CONTINUED)****Report on the Audit of the separate and consolidated Financial Statements (continued)****Report on Other Legal and Regulatory Requirements**

BDO Croatia d.o.o. i PKF FACT revizija d.o.o. was appointed by those charged with governance on 28 September 2021 to audit the annual separate and consolidated financial statements of the Bank and the Group for the year ended 31 December 2022. Total uninterrupted period of engagement of BDO Croatia d.o.o. is 4 years. Total uninterrupted period of engagement of PKF FACT revizija d.o.o. is 2 years.

In an audit of the annual separate and consolidated financial statements of the Bank and the Group for the year 2022, we determined the materiality levels for the annual financial statements as a whole, as follows:

- for the annual separate financial statements: HRK 107 million
- for the annual consolidated financial statements: HRK 107 million

which represents approximately 1% of the net assets of the Bank and the Group as at 31 December 2022.

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

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

During the period between the starting date of the audited separate and consolidated financial statements of the Bank and the Group for the year 2022 and the date of this Report, we have not provide any banned non-audit services to the Bank or the Group and did not provide design and implementation of internal controls or the management procedures risk associated with the preparation and/or control of financial information or the design and implementation of financial information technology systems, and we maintained our independence from the Bank and the Group in performing the audit.

The engaged partners in the audit of the annual separate and consolidated financial statements of the Bank and the Group for the year 2022, resulting in Independent Joint Auditor's Report, are Ivan Čajko, certified auditor (BDO Croatia d.o.o.) and Jeni Krstičević, certified auditor (PKF FACT revizija d.o.o.).

Zagreb,  
23 March 2023

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

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

Ivan Čajko, Certified Auditor and  
Member of the Management Board

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Zagreb,  
23 March 2023

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

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

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Jeni Krstičević, Certified Auditor

  
Irena Kovačić, Member of the  
Management Board

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

	Notes	2022 HRK '000	2021 HRK '000
Interest income calculated using the effective interest method	5	629,193	677,437
Interest expense	6	(158,416)	(184,626)
<b>Net interest income</b>		<b>470,777</b>	<b>492,811</b>
Fee and commission income	7	27,179	31,822
Fee and commission expense	7	(3,910)	(5,056)
<b>Net fee and commission income</b>		<b>23,269</b>	<b>26,766</b>
Net gains/(losses) on financial operations	8	16,768	(11,893)
Other income		25,165	32,030
		<b>535,979</b>	<b>539,714</b>
Employee expenses	9 a)	(105,193)	(100,095)
Depreciation and amortisation	9 b)	(11,600)	(11,304)
Other expenses	9 c)	(84,779)	(76,903)
Impairment loss and provisions	10	(144,277)	(163,013)
<b>Profit before income tax</b>		<b>190,130</b>	<b>188,399</b>
Income tax	11	(672)	(214)
<b>Profit for the year</b>		<b>189,458</b>	<b>188,185</b>
<b>Attributable to:</b>			
<b>Owner of the Bank</b>		<b>189,458</b>	<b>188,185</b>

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

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

(All amounts are expressed in HRK thousand)

	2022	2021
	HRK '000	HRK '000
<b>Profit for the year</b>	<b>189,458</b>	<b>188,185</b>
<b>Other comprehensive income</b>		
<b>Items that are not transferred subsequently to profit or loss:</b>		
Unrealised actuarial (losses)	(759)	(831)
<b>Total items that are not transferred subsequently to profit or loss</b>	<b>(759)</b>	<b>(831)</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	(72,310)	(24,513)
Net foreign exchange on equity instruments	87	(51)
Deferred tax – other comprehensive income	1,737	262
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>(70,486)</b>	<b>(24,302)</b>
<b>Other comprehensive income after income tax</b>	<b>(71,245)</b>	<b>(25,133)</b>
<b>Total comprehensive income after income tax</b>	<b>118,213</b>	<b>163,052</b>
<b>Attributable to:</b>		
<b>Owner of the Bank</b>	<b>118,213</b>	<b>163,052</b>

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

Consolidated Financial Statements of the Group  
Statement of Financial Position  
as of 31 December  
(All amounts are expressed in HRK thousand)

	Notes	2022 HRK '000	2021 HRK '000
<b>Assets</b>			
Cash on hand and current accounts with banks	12	1,721,919	1,961,986
Deposits with other banks	13	33,180	7,500
Loans to financial institutions	14	6,984,712	7,050,143
Loans to other customers	15	17,402,666	15,964,376
Financial assets at fair value through profit or loss	16	131,523	218,984
Financial assets at fair value through other comprehensive income	17	2,686,622	2,972,530
Property, plant and equipment and intangible assets	19	38,831	43,937
Foreclosed assets	20	24,776	21,369
Other assets	21	35,934	37,537
<b>Total assets</b>		<b>29,060,163</b>	<b>28,278,362</b>
<b>Liabilities</b>			
Deposits from customers	22	1,024,623	960,541
Borrowings	23	16,501,276	16,115,237
Provisions for guarantees, commitments and other liabilities	24	142,715	190,560
Other liabilities	25	676,523	435,239
<b>Total liabilities</b>		<b>18,345,137</b>	<b>17,701,577</b>
<b>Equity</b>			
Founder's capital	26	7,204,632	7,184,632
Retained earnings and reserves		3,345,869	3,157,684
Other reserves		(37,270)	33,975
Profit for the year		189,458	188,185
Guarantee fund	27	12,337	12,309
<b>Total equity</b>		<b>10,715,026</b>	<b>10,576,785</b>
<b>Total liabilities and total equity</b>		<b>29,060,163</b>	<b>28,278,362</b>

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

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

	Notes	2022 HRK '000	2021 HRK '000
<b>Operating activities</b>			
Profit before income tax		190,130	188,399
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation and amortisation		11,600	11,304
Income tax		(672)	(214)
Impairment loss and provisions		144,254	163,030
Accrued interest		60,402	95,188
Deferred fees		(13,252)	(9,782)
Net (loss)/gain from trading with derivative financial instruments		(5,304)	5,115
Other changes in assets at fair value		3,144	(39,134)
<i>Operating profit/(loss) before working capital changes</i>		<i>390,302</i>	<i>413,906</i>
<i>Changes in operating assets and liabilities:</i>			
Net (increase) in deposits with other banks, before impairment		(25,697)	(220)
Net decrease in loans to financial institutions, before impairment		69,870	1,816,385
Net increase in loans to other customers, before loss impairment		(1,745,027)	(1,336,094)
Net (increase)/decrease in foreclosed assets		(5,578)	3,103
Net increase in other assets, before impairment		(2,928)	(5,071)
Net increase/(decrease) in deposits from banks and companies		63,988	(13,852)
Net increase in other liabilities, before provisions		241,382	39,256
<b>Net cash (used in)/provided from operating activities</b>		<b>(1,013,688)</b>	<b>917,413</b>
<b>Investment activities</b>			
Purchase of financial assets at fair value through profit or loss		(52,821)	(50,408)
Sale of financial assets at fair value through profit or loss		156,513	30,548
Purchase of financial assets at fair value through other comprehensive income		(1,929,705)	(1,659,706)
Sale of financial assets at fair value through other comprehensive income		2,121,928	1,755,422
Investments in associates – sales and write-offs		-	5,979
Investments in subsidiaries		(20,000)	-
Net purchase of property, plant and equipment and intangible assets		(4,574)	(6,633)
<b>Net cash provided from investment activities</b>		<b>271,341</b>	<b>75,202</b>
<b>Financing activities</b>			
Increase in founder's capital		40,000	50,000
Increase in borrowings – withdrawn funds		2,981,142	1,668,482
Decrease in borrowings – repayments of principal		(2,631,688)	(2,391,147)
Other		63,258	4,703
<b>Net cash provided/(used in) from financing activities</b>		<b>452,712</b>	<b>(667,962)</b>
<b>Effect of foreign currency to cash and cash equivalents</b>			
Net foreign exchange		53,823	(21,626)
<b>Net effect</b>		<b>53,823</b>	<b>(21,626)</b>
Net (decrease)/increase in cash and cash equivalents		(235,812)	303,027
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		(235,812)	303,027
<b>Cash and cash equivalents balance as of 31 December before impairment</b>	<b>12</b>	<b>1,727,983</b>	<b>1,963,795</b>
<b>Additional note - Operational cash flows</b>			
Interest paid		167,604	185,187
Interest received		591,528	665,677

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

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

	Founder's capital HRK '000	Retained earnings and re- serves HRK '000	Other reserves HRK '000	Profit for the year HRK '000	Guarantee fund HRK '000	Total HRK '000
<b>Balance as of 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 year	-	-	-	188,185	-	188,185
Other comprehensive income	-	-	(25,133)	-	-	(25,133)
Total comprehensive income	-	-	(25,133)	188,185	-	163,052
Net foreign exchange - Guarantee fund	-	-	-	-	(32)	(32)
Capital paid-in from the State Budget	50,000	-	-	-	-	50,000
Transfer of profit 2020 to retained earnings	-	81,531	-	(81,531)	-	-
<b>Balance as of 31 December 2021</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 year	-	-	-	189,458	-	189,458
Other comprehensive income	-	-	(71,245)	-	-	(71,245)
Total comprehensive income	-	-	(71,245)	189,458	-	118,213
Net foreign exchange - Guarantee fund	-	-	-	-	28	28
Capital paid-in from the State Budget	20,000	-	-	-	-	20,000
Transfer of profit 2021 to retained earnings	-	188,185	-	(188,185)	-	-
<b>Balance as of 31 December 2022</b>	<b>7,204,632</b>	<b>3,345,869</b>	<b>(37,270)</b>	<b>189,458</b>	<b>12,337</b>	<b>10,715,026</b>

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

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

	Notes	2022 HRK '000	2021 HRK '000
Interest income calculated using the effective interest method	5	627,881	676,167
Interest expense	6	(158,406)	(184,610)
<b>Net interest income</b>		<b>469,475</b>	<b>491,557</b>
Fee and commission income	7	23,302	28,504
Fee and commission expense	7	(3,910)	(5,056)
<b>Net fee and commission income</b>		<b>19,392</b>	<b>23,448</b>
Net gains/(losses) on financial operations	8	16,725	(11,837)
Other income		14,163	23,972
		<b>519,755</b>	<b>527,140</b>
Employee expenses	9a)	(100,254)	(95,219)
Depreciation and amortisation	9 b)	(11,248)	(10,990)
Other expenses	9 c)	(77,646)	(70,845)
Impairment loss and provisions	10	(144,434)	(163,004)
<b>Profit before income tax</b>		<b>186,173</b>	<b>187,082</b>
Income tax	11	-	-
<b>Profit for the year</b>		<b>186,173</b>	<b>187,082</b>
<b>Attributable to:</b>			
<b>Owner of the Bank</b>		<b>186,173</b>	<b>187,082</b>

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

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

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	2022 HRK '000	2021 HRK '000
<b>Profit for the year</b>	<b>186,173</b>	<b>187,082</b>
<b>Other comprehensive income</b>		
<b>Items that are not transferred subsequently to profit or loss:</b>		
Unrealised actuarial (losses)	(759)	(831)
<b>Total items that are not transferred subsequently to profit or loss</b>	<b>(759)</b>	<b>(831)</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	(62,658)	(23,063)
Net foreign exchange on equity instruments	87	(51)
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>(62,571)</b>	<b>(23,114)</b>
<b>Other comprehensive income after income tax</b>	<b>(63,330)</b>	<b>(23,945)</b>
<b>Total comprehensive income after income tax</b>	<b>122,843</b>	<b>163,137</b>
<b>Attributable to:</b>		
<b>Owner of the Bank</b>	<b>122,843</b>	<b>163,137</b>

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

Separate Financial Statements of the Bank  
Statement of Financial Position  
as of 31 December  
(All amounts are expressed in HRK thousand)

		2022	2021
	Notes	HRK '000	HRK '000
<b>Assets</b>			
Cash on hand and current accounts with banks	12	1,716,519	1,958,620
Deposits with other banks	13	10,596	7,500
Loans to financial institutions	14	6,984,712	7,050,143
Loans to other customers	15	17,402,666	15,964,376
Financial assets at fair value through profit or loss	16	131,523	218,984
Financial assets at fair value through other comprehensive income	17	2,639,472	2,915,704
Investments in subsidiaries	18	56,124	36,124
Property, plant and equipment and intangible assets	19	37,727	42,674
Foreclosed assets	20	24,776	21,369
Other assets	21	28,192	34,494
<b>Total assets</b>		<b>29,032,307</b>	<b>28,249,988</b>
<b>Liabilities</b>			
Deposits from customers	22	1,024,623	960,541
Borrowings	23	16,501,276	16,115,237
Provisions for guarantees, commitments and other liabilities	24	142,675	190,303
Other liabilities	25	653,133	416,178
<b>Total liabilities</b>		<b>18,321,707</b>	<b>17,682,259</b>
<b>Equity</b>			
Founder's capital	26	7,204,632	7,184,632
Retained earnings and reserves		3,340,827	3,153,745
Other reserves		(33,369)	29,961
Profit for the year		186,173	187,082
Guarantee fund	27	12,337	12,309
<b>Total equity</b>		<b>10,710,600</b>	<b>10,567,729</b>
<b>Total liabilities and total equity</b>		<b>29,032,307</b>	<b>28,249,988</b>

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

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

	Notes	2022 HRK '000	2021 HRK '000
<b>Operating activities</b>			
Profit before income tax		186,173	187,082
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation and amortisation		11,248	10,990
Impairment loss and provisions		144,434	163,004
Accrued interest		60,412	95,170
Deferred fees		(13,252)	(9,782)
Net (loss)/gains from trading with derivative financial instruments		(5,304)	5,115
Other changes in assets at fair value		3,053	(39,134)
<i>Operating profit/(loss) before working capital changes</i>		<i>386,764</i>	<i>412,445</i>
<i>Changes in operating assets and liabilities:</i>			
Net (increase) in deposits with other banks, before impairment		(3,094)	(220)
Net decrease in loans to financial institutions, before impairment		69,870	1,816,385
Net (increase) in loans to other customers, before impairment		(1,745,027)	(1,336,094)
Net (increase)/decrease in foreclosed assets		(5,578)	3,103
Net decrease/(increase) in other assets, before impairment		636	(5,021)
Net increase/(decrease) in deposits from banks and companies		63,988	(13,852)
Net increase in other liabilities, before provisions		236,955	36,566
<b>Net cash (used in)/provided from operating activities</b>		<b>(995,486)</b>	<b>913,312</b>
<b>Investment activities</b>			
Purchase of financial assets at fair value through profit or loss income		(52,821)	(50,408)
Sale of financial assets at fair value through profit or loss		156,513	30,548
Purchase of financial assets at fair value through other comprehensive income		(1,929,705)	(1,651,703)
Sale of financial assets at fair value through other comprehensive income		2,121,928	1,753,422
Investments in associates – sales and write-offs		-	5,979
Investments in subsidiaries		(20,000)	-
Net purchase of property, plant and equipment and intangible assets		(4,380)	(5,912)
<b>Net cash provided from investment activities</b>		<b>271,535</b>	<b>81,926</b>
<b>Financing activities</b>			
Increase in founder's capital		20,000	50,000
Increase in borrowings – withdrawn funds		2,981,142	1,668,482
Decrease in borrowings – repayments of principle		(2,631,688)	(2,391,147)
Other		62,758	4,712
<b>Net cash provided from/(used in) financing activities</b>		<b>432,212</b>	<b>(667,953)</b>
<b>Effect of foreign currency to cash and cash equivalents</b>			
Net foreign exchange		53,893	(21,666)
<b>Net effect</b>		<b>53,893</b>	<b>(21,666)</b>
Net (decrease)/increase in cash and cash equivalents		(237,846)	305,619
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		(237,846)	305,619
<b>Cash and cash equivalents balance as at 31 December, before impairment</b>	<b>12</b>	<b>1,722,578</b>	<b>1,960,424</b>
<b>Additional note – operating activities</b>			
Interest paid		167,604	185,187
Interest received		590,191	664,320

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

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

	Founder's capital HRK '000	Retained earnings and re- serves HRK '000	Other reserves HRK '000	Profit for the year HRK '000	Guarantee fund HRK '000	Total 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 year	-	-	-	187,082	-	<b>187,082</b>
Other comprehensive income	-	-	(23,945)	-	-	<b>(23,945)</b>
Total comprehensive income	-	-	<b>(23,945)</b>	<b>187,082</b>	-	<b>163,137</b>
Net foreign exchange - Guarantee fund	-	-	-	-	(32)	<b>(32)</b>
Capital paid-in from the State Budget	50,000	-	-	-	-	<b>50,000</b>
Transfer of profit 2020 to retained earnings	-	79,339	-	(79,339)	-	-
<b>Balance as at 31 December 2021</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 year	-	-	-	186,173	-	<b>186,173</b>
Other comprehensive income	-	-	(63,330)	-	-	<b>(63,330)</b>
Total comprehensive income	-	-	<b>(63,330)</b>	<b>186,173</b>	-	<b>122,843</b>
Net foreign exchange - Guarantee fund	-	-	-	-	28	<b>28</b>
Capital paid-in from the State Budget	20,000	-	-	-	-	<b>20,000</b>
Transfer of profit 2021 to retained earnings	-	187,082	-	(187,082)	-	-
<b>Balance as at 31 December 2022</b>	<b>7,204,632</b>	<b>3,340,827</b>	<b>(33,369)</b>	<b>186,173</b>	<b>12,337</b>	<b>10,710,600</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 year ended 31 December 2022

(All amounts are expressed in HRK thousand)

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## 1. General information

### 1.1. Group:

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

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

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

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

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

As of 31 December 2022, the Group had 402 employees (31 December 2021: 394 employees).

### 1.2. Bank:

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

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

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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## 1. General information (continued)

### 1.2. Bank (continued):

#### *Supervisory Board*

As of 31 December 2022, members of the Supervisory Board were as follows:

- Marko Primorac, PhD, associate professor, Minister of Finance - ex officio President of the Supervisory Board,
- Davor Filipović, PhD, associate professor, Minister of the Economy and Sustainable Development – ex officio Deputy President of the Supervisory Board,
- Nikolina Brnjac, PhD, 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 Burilović, PhD, 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, PhD, member of Parliament.

After the reporting period, the Government of the Republic of Croatia adopted, at the meeting held on 20 January 2023, a Decision on Dismissal and Appointment of Several Members of the Supervisory Board of the Croatian Bank for Reconstruction and Development, by which the following members of the Supervisory Board were dismissed from their positions: Nataša Tramišak and Ivan Paladina, whereas Šime Erlić, Minister of Regional Development and EU Funds, was appointed ex-officio member of the Supervisory Board of HBOR and Branko Bačić, Deputy Prime Minister and Minister of Physical Planning, Construction and State Assets, was appointed member of the Supervisory Board of HBOR.

Pursuant to the aforementioned, HBOR's Supervisory Board has consisted of the following members as of 20 January 2023:

- Marko Primorac, PhD, associate professor, Minister of Finance - ex officio President of the Supervisory Board,
- Davor Filipović, PhD, associate professor, Minister of the Economy and Sustainable Development – ex officio Deputy President of the Supervisory Board,
- Nikolina Brnjac, PhD, Minister of Tourism and Sports,
- Šime Erlić, Minister of Regional Development and EU Funds,
- Marija Vučković, MSc, Minister of Agriculture,
- Branko Bačić, Deputy Prime Minister of the Republic of Croatia and Minister of Physical Planning, Construction and State Assets,
- Luka Burilović, PhD, 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, PhD, member of Parliament.

#### *Management Board*

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

- Hrvoje Čuvalo, MSc, President of the Management Board,
- Josip Pavković, Member of the Management Board, and
- Alan Herjavec, MSc, Member of the Management Board.

As of 31 December 2022, HBOR had 382 employees (31 December 2021: 375 employees).

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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## 1. General information (continued)

### 1.2. Bank (continued):

#### *Audit Committee*

As of 31 December 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,
- Prof. DSc. Boris Tušek, Faculty of Economics and Business of the University of Zagreb, Deputy Chairman of the Audit Committee,
- Predrag Štomar, Chairman of the Physical Planning and Construction Committee of the Croatian Parliament, member of the Audit Committee.

On the basis of the By-Laws of HBOR, the Supervisory Board made at its 7th meeting held on 27 September 2022 the Decision on the Appointment of Mr Boris Tušek, PhD, Tenured Professor at the Department of Accounting of the Faculty of Economics and Business, Zagreb University on the Audit Committee of HBOR as Deputy Chairman of the Audit Committee of HBOR.

#### 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. The impact of the crisis caused by the Russian-Ukrainian war

Following the Russian invasion of Ukraine on 24 February 2022, the European Union imposed a package of sanctions against the Russian Federation and the Republic of Belarus that has economic consequences for the entire EU market, including the Croatian economy. Entrepreneurs are affected in multiple ways, both directly and indirectly, especially in the form of reduction in demand, termination of existing contracts and projects with the consequent loss of turnover, disruptions in supply chains, particularly of raw materials and semi-finished products, energy prices and other input materials. The crisis is disrupting supply chains, affecting the exporters and the importers of Russian, Ukrainian and Belarusian goods and services. The negative impact of price increases is already being felt throughout the Croatian economy.

Following the above, HBOR has started a programme of support to the Croatian economy affected by the new crisis under:

- HBOR's aid award programme aligned with the Temporary Crisis Framework for State Aid Measures to Support the Economy after Russia's Invasion of Ukraine - sections "2.1 and 2.3",
- Decision on the Adoption of a Temporary Crisis Measure under the Working Capital Loan Programme: Working Capital CRISIS 2022 – Measure, the implementation of which has been extended until 31 December 2023 and
- Ordinance on the Processing of Applications for Direct Loans under the loan programme Working Capital CRISIS 2022 – Measure that includes also financing under the risk-sharing model with financial institutions.

Although the long-term impact of this crisis 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.

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 0.3% of the parent company's total assets. The Management Board of the subsidiary companies is taking the necessary measures to reduce the negative effects of the invasion of Ukraine.

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

#### **2.1. Statement of compliance**

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. They were authorised for issue by the Bank's Management Board on 23 March 2023.

#### **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 was the Bank's functional and presentation currency until 31 December 2022. All amounts have been rounded to the nearest thousand, except when otherwise indicated.

### **3. Use of judgements and estimates**

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

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

#### *Judgements*

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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### 3. Use of judgements and estimates (continued)

#### *Assumptions and estimation uncertainties*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2022 is included in the following notes

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

### 4. Summary of significant accounting policies

#### 4.1. Significant accounting policies

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

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

#### **A. Basis of consolidation**

##### *Subsidiaries*

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

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

##### *Non-controlling interests*

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

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

##### *Loss of control*

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

**4.1. Significant accounting policies (continued)**

**A. Basis of consolidation (continued)**

*Transactions eliminated on consolidation*

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

**B. Foreign currency transactions and foreign currency clause**

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

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

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

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

31 December 2022	1 EUR = HRK 7.534500	1 USD = HRK 7,064035
31 December 2021	1 EUR = HRK 7.517174	1 USD = HRK 6.643548

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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### 4. Summary of significant accounting policies (continued)

#### 4.1. Significant accounting policies (continued)

##### C. Interest income and expense

###### *Effective interest rate*

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

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

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

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

###### *Amortised cost and gross carrying amount*

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

###### *Amortised cost and gross carrying amount (continued)*

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

###### *Calculation of interest income and expense*

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

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

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

**4.1. Significant accounting policies (continued)**

**C. Interest income and expense (continued)**

*Calculation of interest income and expense (continued)*

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

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

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

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

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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### 4. Summary of significant accounting policies (continued)

#### 4.1. Significant accounting policies (continued)

##### C. Interest income and expense (continued)

##### D. Fee and commission income

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

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

##### E. Leases

(a) The Group as a lessee

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

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

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

A lease liability is measured at the present value of all lease payments that have not been made by the lease commencement date using a discount rate. The discount rate is equal to the average weighted interest rate on HBOR placements determined for the previous business year.

Lease payments included in the measurement of the lease liability include the following payments that have not been settled by the first day of the lease term:

- a) fixed payments;
- b) variable payments that depend on a specific index or rate;
- c) amounts expected to be paid on behalf of the guaranteed residual value;
- d) the price of using the redemption option if there is a high probability of using that option; and
- e) penalties for termination of lease.

The Group presents assets with the right of use in note 21. Other assets, and lease liabilities in note 25. Other liabilities, due to intangible amount.

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

**4.1. Significant accounting policies (continued)**

**E. Leases (continued)**

(a) The Group as a lessee (continued)

Short-term leases and leases of low value assets

The Group has chosen the option of not recognising the right-of-use assets and lease liabilities for low value assets leases and short-term leases. The Group recognises lease payments related to these leases as a cost using the straight-line method over the lease term.

The Group had no financial leases in its portfolio.

(b) The Group as a lessor

Leases in which the lessor retains substantially all the risks and rewards incidental to ownership of an underlying asset are classified as operating leases. Operating lease assets are included in 'Investments in property' in the statement of financial position. Investments in property are disclosed in Note 21. Other assets due to immaterial amount. Assets are depreciated on a straight-line basis in the same way as other items of property and equipment. Lease income is recognised over the term of the lease.

**F. Income tax**

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

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

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

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

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

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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### 4. Summary of significant accounting policies (continued)

#### 4.1. Significant accounting policies (continued)

#### G. Financial assets and financial liabilities

##### *i. Recognition and initial measurement*

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

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

##### *ii. Classification*

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

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

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

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

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

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

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

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

##### **Business models**

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

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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### 4. Summary of significant accounting policies (continued)

#### 4.1. Significant accounting policies (continued)

#### G. Financial assets and financial liabilities (continued)

##### ii. Classification (continued)

Business models of the Group are:

- Business model, whose objective is to hold assets for the collection of contractual cash flows – it includes all financial assets held for the purpose of collection of contractual cash flows over the lifetime of the financial instrument.  
For the purpose of classification in this business model, financial assets goes through the SPPI (Solely payment of principal and interest) test, and the following financial assets are allocated to this model:
  - o current accounts with banks,
  - o deposits with banks,
  - o loans and reversed repo placements,
  - o other receivables.Credit risk is a basic risk managed under this business model.
  
- Business model aimed to collect the contractual cash flows and sale of financial assets – it includes financial assets held for the purpose of collecting the agreed cash flows and sale of financial assets.  
The following financial assets are allocated to the business model for the purpose of collection and sale:
  - o Debt securities (pass SPPI test),
  - o Equity securities (fail SPPI test),
  - o Shares in investment funds (fail SPPI test),Liquidity risk is a basic risk managed under this business model.
  
- Business model under which financial assets are measured at fair value through profit and loss account (fail SPPI test) – combines all financial assets that are not held under the previously mentioned two business models.  
Financial assets under this business model are managed for the purpose of generating cash flows from the sale of assets and generating short-term profit.

##### iii. SPPI test

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

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

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

**4.1. Significant accounting policies (continued)**

**G. Financial assets and financial liabilities (continued)**

**iii. SPPI test (continued)**

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

SPPI test is performed:

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

**iv. Reclassification of financial assets**

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

**v. Derecognition**

Financial assets

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

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

**4.1. Significant accounting policies (continued)**

**G. Financial assets and financial liabilities (continued)**

**v. Derecognition (continued)**

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

**Financial liabilities**

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

**vi. Modification of financial assets**

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

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

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

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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#### **4. Summary of significant accounting policies (continued)**

##### **4.1. Significant accounting policies (continued)**

#### **G. Financial assets and financial liabilities (continued)**

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

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

At initial measurement of POCI assets, its carrying amount is not reduced by the loss allowance, but POCI assets are recognised in the amount of fair value that includes expected credit losses.

At initial recognition, expected credit losses are stated as impairment loss that occurred at initial recognition in the statement of financial position. At the same time, in the statement on profit or loss, only impairment losses arisen at initial recognition are recognized, if these are issued POCI assets or POCI assets that arose after significant modification.

Loss allowance is recognised in the statement on financial position in the amount of cumulative changes in the lifetime expected credit losses arisen after the initial recognition of POCI assets, with simultaneous recognition of profit or loss from impairment in the statement on profit or loss.

The decrease in the lifetime expected credit losses in relation to the amount of expected credit losses at initial recognition, is recognised as a negative amount of loss allowance, with simultaneous recognition of profit from impairment in the statement on profit or loss.

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

##### ***viii. Fair value measurement***

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

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

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

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

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

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

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

**4.1. Significant accounting policies (continued)**

**G. Financial assets and financial liabilities (continued)**

**viii. Fair value measurement (continued)**

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

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

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

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

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

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

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

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

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

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

Comparison between the fair value and the carrying value of financial instruments that are not measured at fair value is given in Note 32.2.

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

**4.1. Significant accounting policies (continued)**

**G. Financial assets and financial liabilities (continued)**

***ix. Impairment***

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

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

Impairment is performed by applying the general and simplified approach.

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

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

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

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

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

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

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

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

For detailed explanation of the triggers for classification in Stage 2 please see Note 31. Risk management.

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

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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#### **4. Summary of significant accounting policies (continued)**

##### **4.1. Significant accounting policies (continued)**

#### **G. Financial assets and financial liabilities (continued)**

##### ***ix. Impairment (continued)***

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

Expected credit losses are measured on a collective basis for clients allocated to Stage 1 and Stage 2 as well as for clients allocated to Stage 3, which are in the portfolio of small loans (gross exposure amount equal or lower than HRK 3,000 thousand), whereas individual assessment is carried out for the financial instruments of clients who are in a default status and for POCI assets.

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

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

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

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

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

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

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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#### **4. Summary of significant accounting policies (continued)**

##### **4.1. Significant accounting policies (continued)**

##### **G. Financial assets and financial liabilities (continued)**

##### ***ix. Impairment (continued)***

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

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

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

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

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

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

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

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

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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#### **4. Summary of significant accounting policies (continued)**

##### **4.1. Significant accounting policies (continued)**

##### **G. Financial assets and financial liabilities (continued)**

###### ***ix. Impairment (continued)***

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

Details regarding the methodology are stated in Note 31. Risk Management.

###### ***x. Financial assets-categories***

Financial assets of the Group are comprised of:

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

###### ***Current accounts with banks***

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

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

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

###### ***Deposits with banks***

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

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

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

**4.1. Significant accounting policies (continued)**

**G. Financial assets and financial liabilities (continued)**

**x. Financial assets-categories (continued)**

*Loans*

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

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

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

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

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

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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#### **4. Summary of significant accounting policies (continued)**

##### **4.1. Significant accounting policies (continued)**

##### **G. Financial assets and financial liabilities (continued)**

###### ***x. Financial assets-categories (continued)***

###### *Debt securities*

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

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

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

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

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

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

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

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

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

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

**4.1. Significant accounting policies (continued)**

**G. Financial assets and financial liabilities (continued)**

**x. Financial assets-categories (continued)**

*Equity securities*

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

Investments are broken down as follows:

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

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

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

The same accounting treatment is used for every investment category.

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

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

*Investments without significant influence – equity stake below 20 %*

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

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

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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#### **4. Summary of significant accounting policies (continued)**

##### **4.1. Significant accounting policies (continued)**

##### **G. Financial assets and financial liabilities (continued)**

##### **x. Financial assets-categories (continued)**

###### *Equity securities (continued)*

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

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

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

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

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

###### Shares in investment funds

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

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

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

###### *Derivative financial instruments*

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

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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#### **4. Summary of significant accounting policies (continued)**

##### **4.1. Significant accounting policies (continued)**

##### **G. Financial assets and financial liabilities (continued)**

##### **x. Financial assets-categories (continued)**

###### *Derivative financial instruments (continued)*

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

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

HBOR does not hold or issue derivatives for speculative purposes.

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

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

###### *Other receivables*

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

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

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

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

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

**4.1. Significant accounting policies (continued)**

**G. Financial assets and financial liabilities (continued)**

**x. Financial assets-categories (continued)**

*Other receivables (continued)*

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

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

**H. Property, plant and equipment and intangible assets**

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

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

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

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

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

Land is not depreciated.

Estimated useful lives are as follows:

		<b>2022</b>		<b>2021</b>
	Useful life expressed in years	Annual depreciation rates	Useful life expressed in years	Annual depreciation rates
Buildings	20	5%	20	5%
Computers	2	50%	2	50%
Furniture and Equipment	4	25%	4	25%
Vehicles	5	20%	5	20%
Other assets and investments not mentioned	10	10%	10	10%
Intangible Assets	4	25%	4	25%

#### **4. Summary of significant accounting policies (continued)**

##### **4.1. Significant accounting policies (continued)**

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

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

##### **I. Investment property**

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

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

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

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

	<b>2022</b>	<b>2021</b>
	years	years
Leased property	20	20

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

Investment property is stated in Note 21. Other assets due to immaterial amount.

##### **J. Foreclosed assets**

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

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

Depreciation on these assets is not charged.

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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### **4. Summary of significant accounting policies (continued)**

#### **4.1. Significant accounting policies (continued)**

##### **J. Foreclosed assets (continued)**

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

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

##### **K. Deposits, borrowings and debt securities issued**

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

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

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

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

##### **L. Government grants**

Interest for the borrowers qualifying for subsidized interest under the Programme of Preferential Financing through HBOR's Loan Programmes, is subsidized by the Republic of Croatia – the Ministry of Finance during the entire loan repayment period, the Programme of Working Capital COVID-19 Measure for SMEs in tourism industry, under the Programme NRRP – Interest Subsidy Fund for SMEs, under the Programme NRRP – Interest Subsidy Fund for MIDCAP and Large entrepreneurs, under the Programme NRRP – Interest Subsidy for Public Sector.

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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### **4. Summary of significant accounting policies (continued)**

#### **4.1. Significant accounting policies (continued)**

##### **M. Loan commitments**

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

For other loan commitments:

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

Liabilities arising from loan commitments are included within provisions.

##### **N. Employee benefits**

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

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

##### **O. Segment reporting**

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

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

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

##### **P. Managed funds for and on behalf of third parties**

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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#### **4. Summary of significant accounting policies (continued)**

##### **4.1. Significant accounting policies (continued)**

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

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

Revenues and expense relating to this business activity are charged to third parties, and the Bank does not have other liabilities nor bears any risks. For services provided within the framework of some of the programmes, the Bank charges a fee, whereas other programmes are performed by the Bank free of charge (see Note 29.).

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

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

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

- 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***

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

- 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);
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2023);
- IAS 12 Income Taxes (amendment – Deferred tax related to assets and liabilities arising from a single transaction) (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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#### **4. Summary of significant accounting policies (continued)**

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

HBOR Group is currently preparing for the application of IFRS Insurance Contracts, including amendments to IFRS 17 and initial application of IFRS 17 and IFRS 9 – comparative information (in effect in the EU from 1 January 2023).

According to the assessment, the application of the new standards to the subsidiary will have the effect of a slight increase in the profit of the subsidiary, which will be recognised in retained earnings and reserves on 1 January 2023 and will not have a significant impact on the result of the HBOR Group due to non-material impact of the subsidiary.

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

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

- Amendments to IFRS 16 Leases: Lease obligation in case of sale with leaseback (effective for annual periods beginning on or after 1 January 2024); IFRS 17 – Insurance Contracts and amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 1 Presentation of Financial Statements (amendment – Classification of Liabilities as Current or Non-current) (effective for annual periods beginning on or after 1 January 2024);
- Amendments to IAS 1 Presentation of Financial Statements (amendment – Non-current liabilities with Covenants) (effective for annual periods beginning on or after 1 January 2024).

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.

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

Interest income by borrowers:

	<b>Group</b>		<b>Bank</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
Public sector	141,094	143,012	139,792	141,742
State-owned companies	28,605	26,068	28,605	26,068
Foreign companies	9,761	18,671	9,761	18,671
Domestic companies	317,539	312,150	317,539	312,150
Domestic financial institutions	82,211	116,437	82,201	116,437
Foreign financial institutions	366	1,817	366	1,817
Penalty interest	35,742	42,576	35,742	42,576
Other	13,875	16,706	13,875	16,706
	<b>629,193</b>	<b>677,437</b>	<b>627,881</b>	<b>676,167</b>

Interest income by type of facility:

	<b>Group</b>		<b>Bank</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
Interest on loans				
- financial institutions	82,203	116,440	82,203	116,440
- other customers	524,889	530,259	524,889	530,259
	<b>607,092</b>	<b>646,699</b>	<b>607,092</b>	<b>646,699</b>
Investments in securities	21,724	28,911	20,422	27,641
- <i>Bonds of the Republic of Croatia</i>	20,993	28,138	19,722	26,899
- <i>Corporate bonds</i>	100	195	69	164
- <i>Treasury bills of the Ministry of Finance</i>	631	578	631	578
Deposits	377	1,827	367	1,827
	<b>629,193</b>	<b>677,437</b>	<b>627,881</b>	<b>676,167</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 (see Note 25 Other liabilities) and is recognized in profit or loss on a time basis during the repayment of the loan. Interest income earned on this basis in 2022 amounts to HRK 58,896 thousand (31 December 2021: HRK 48,331 thousand).

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

## 6. Interest expense

Interest expense by type of payee:

	Group		Bank	
	2022 HRK '000	2021 HRK '000	2022 HRK '000	2021 HRK '000
Domestic financial institutions	609	6	609	6
Foreign financial institutions	143,613	170,811	143,613	170,811
State units	14,101	13,737	14,101	13,737
Other	93	72	83	56
	<b>158,416</b>	<b>184,626</b>	<b>158,406</b>	<b>184,610</b>

Interest expense by type of facility:

	Group		Bank	
	2022 HRK '000	2021 HRK '000	2022 HRK '000	2021 HRK '000
Borrowings	156,894	183,973	156,894	183,973
Debt securities	26	49	26	49
Deposits	1,403	532	1,403	532
Leases – interest expenses on long term contracts	93	72	83	56
	<b>158,416</b>	<b>184,626</b>	<b>158,406</b>	<b>184,610</b>

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

## 7. Net fee and commission income

	Group		Bank	
	2022 HRK '000	2021 HRK '000	2022 HRK '000	2021 HRK '000
<b>Fee and commission income from contracts with customers:</b>				
Asset management - from managed funds for and on behalf of third parties	17,554	22,079	17,554	22,079
From payment operations	244	164	244	164
Other	33	36	33	36
<b>Total fee and commission income from contracts with customers</b>	<b>17,831</b>	<b>22,279</b>	<b>17,831</b>	<b>22,279</b>
From issued guarantees	5,471	6,225	5,471	6,225
Reinsurance commission income	3,877	3,318	-	-
<b>Total fee and commission income</b>	<b>27,179</b>	<b>31,822</b>	<b>23,302</b>	<b>28,504</b>
Fee and commission expense	(3,910)	(5,056)	(3,910)	(5,056)
<b>Net fee and commission income</b>	<b>23,269</b>	<b>26,766</b>	<b>19,392</b>	<b>23,448</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**8. Net gains/(losses) on financial operations**

	2022 HRK '000	Group 2021 HRK '000	2022 HRK '000	Bank 2021 HRK '000
Net foreign exchange gains/(losses) on foreign currency assets:				
Cash on hand, accounts at banks and due from banks	5,670	(1,976)	5,698	(1,976)
Loans given to financial institutions and other customers	27,891	(20,858)	27,891	(20,858)
Financial assets at fair value through profit or loss	2,035	853	2,035	853
Financial assets at fair value through other comprehensive income	805	(1,953)	741	(1,905)
Other	7,817	4,606	7,817	4,606
	<u>44,218</u>	<u>(19,328)</u>	<u>44,182</u>	<u>(19,280)</u>
Net foreign exchange gains/(losses) on foreign currency liabilities:				
Deposits	(5,677)	(3,468)	(5,677)	(3,468)
Borrowings and issued long-term securities	(45,905)	25,402	(45,905)	25,402
Other	2,095	(1,626)	2,088	(1,618)
	<u>(49,487)</u>	<u>20,308</u>	<u>(49,494)</u>	<u>20,316</u>
<b>Net foreign exchange gains/(losses) on foreign currency assets and liabilities</b>	<b><u>(5,269)</u></b>	<b><u>980</u></b>	<b><u>(5,312)</u></b>	<b><u>1,036</u></b>
Gains/(losses) on assets at fair value through profit or loss	17,018	(7,758)	17,018	(7,758)
Gain/(Loss) from trading with derivative financial instruments	5,304	(5,115)	5,304	(5,115)
Realized (losses) on financial assets at fair value through other comprehensive income	(285)	-	(285)	-
<b>Net gains/(losses) on financial operations</b>	<b><u>16,768</u></b>	<b><u>(11,893)</u></b>	<b><u>16,725</u></b>	<b><u>(11,837)</u></b>

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

## 9. Operating expenses

Operating expenses can be shown as follows:

	2022 HRK '000	Group 2021 HRK '000	2022 HRK '000	Bank 2021 HRK '000
9 a) Employee expenses	105,193	100,095	100,254	95,219
9 b) Depreciation	11,600	11,304	11,248	10,990
9 c) Other expenses	84,779	76,903	77,646	70,845
<i>From what:</i>				
<i>Administration expenses</i>	16,541	20,883	15,828	20,354
<i>Material and services</i>	34,440	31,373	32,544	29,643
<i>Other expenses</i>	33,798	24,647	29,274	20,848
	<b>201,572</b>	<b>188,302</b>	<b>189,148</b>	<b>177,054</b>

Material and services contain audit costs as follows:

	2022 HRK '000	Group 2021 HRK '000	2022 HRK '000	Bank 2021 HRK '000
Audit services	706	701	563	563
Non-audit services	-	-	-	-
<b>Audit expenses</b>	<b>706</b>	<b>701</b>	<b>563</b>	<b>563</b>

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

	2022 HRK '000	Group 2021 HRK '000	2022 HRK '000	Bank 2021 HRK '000
Change in the claims provision	(2,195)	1,610	-	-
Change in the claims provision, reinsurer's share	754	(61)	-	-
<b>Expenses of insurance operations</b>	<b>(1,441)</b>	<b>1,549</b>	<b>-</b>	<b>-</b>

Provisions for losses as at 31 December 2024 consisted of reported and unreported losses in the framework proportion 25:75. At the end of 2022, total gross provisions for losses decreased compared to the end of 2021 by 26%. The Bornhuetter-Ferguson method was used with respect to the gross amount of reserves for the losses not reported, whereas the amount of the actual losses incurred was used with respect to the reported losses. The reinsurance share was determined in accordance with the terms and conditions of reinsurance in force.

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**10. Impairment loss and provisions**

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

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

	<b>Group</b>		<b>Bank</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
Impairment losses on cash on hand and due from financial institutions	4,250	156	4,250	160
Impairment losses on deposits with other banks	28	(1)	(2)	(1)
Impairment losses on loans to financial institutions	1,906	(23,698)	1,906	(23,698)
Impairment losses on loans to other customers and interest	129,990	78,124	129,990	78,124
Modification (gain)/loss – financial institutions	(1,170)	(611)	(1,170)	(611)
Modification (gain)/loss – other customers	22,020	(14,231)	22,020	(14,231)
POCI assets – fair value adjustment at initial recognition	29,139	45,151	29,139	45,151
Impairment of financial assets at fair value through other comprehensive income	104	(29)	107	(36)
Impairment losses on other assets	3,764	(2,542)	3,731	(2,551)
Provisions for commitments	(14,440)	7,503	(14,440)	7,503
Provision for guarantees	(33,742)	74,799	(33,742)	74,799
<b>Total</b>	<b>141,849</b>	<b>164,621</b>	<b>141,789</b>	<b>164,609</b>

**b) Other impairment losses and provisions**

	<b>Group</b>		<b>Bank</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
Impairment losses on foreclosed assets	2,171	750	2,171	750
Provision for other liabilities	257	(2,358)	474	(2,355)
<b>Total</b>	<b>2,428</b>	<b>(1,608)</b>	<b>2,645</b>	<b>(1,605)</b>
<b>Total</b>	<b>144,277</b>	<b>163,013</b>	<b>144,434</b>	<b>163,004</b>

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**11. Income tax**

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

	<b>2021</b>	<b>Group</b>
	<b>HRK '000</b>	<b>2021</b>
		<b>HRK '000</b>
<b>Recognised in Income Statement</b>		
Current tax - recognised in Income Statement	(672)	(214)
<b>Income tax</b>	<b>(672)</b>	<b>(214)</b>
<b>Income tax reconciliation</b>		
<b>Profit before tax</b>	<b>190,130</b>	<b>188,399</b>
Profit of the Bank not subject to income tax	(186,173)	(187,082)
<b>Profit before tax subject to income tax</b>	<b>3,957</b>	<b>1,317</b>
Income tax at 18% rate	(628)	(174)
Income tax at 10% rate	(47)	(35)
Non-deductible expense	3	(5)
<b>Total income tax expense</b>	<b>(672)</b>	<b>(214)</b>

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

	<b>31 December 2022 HRK '000</b>	<b>Group 31 December 2021 HRK '000</b>	<b>31 December 2022 HRK '000</b>	<b>Bank 31 December 2021 HRK '000</b>
Account with the Croatian National Bank	2,100	1,879,493	2,100	1,879,493
Accounts with the domestic banks	1,620,336	-	1,620,336	-
Cash on hand	-	1	-	1
Foreign currency account - domestic banks	11	9	-	-
Foreign currency account - foreign banks	100,145	80,938	100,142	80,930
Domestic currency account – domestic banks	5,391	3,354	-	-
	<b>1,727,983</b>	<b>1,963,795</b>	<b>1,722,578</b>	<b>1,960,424</b>
Loss allowances	(6,064)	(1,809)	(6,059)	(1,804)
	<b>1,721,919</b>	<b>1,961,986</b>	<b>1,716,519</b>	<b>1,958,620</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:

	<b>31 December 2022</b>							
	<b>Group</b>				<b>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>	<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	1,727,983	-	-	<b>1,727,983</b>	1,722,578	-	-	<b>1,722,578</b>
Loss allowances	(6,064)	-	-	<b>(6,064)</b>	(6,059)	-	-	<b>(6,059)</b>
<b>Balance as of 31 December 2022</b>	<b>1,721,919</b>	-	-	<b>1,721,919</b>	<b>1,716,519</b>	-	-	<b>1,716,519</b>

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

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

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

	<b>Jan 1 – Dec 31, 2022</b>	<b>Group Jan 1 - Dec 31, 2021</b>	<b>Jan 1 - Dec 31, 2022</b>	<b>Bank Jan 1 - Dec 31, 2021</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
Balance as of 1 January	1,809	1,652	1,804	1,643
Net increase of loss allowances on amounts due from banks	4,250	156	4,250	160
<i>Total recognised through Income Statement (Note 10)</i>	4,250	156	4,250	160
Net foreign exchange gain/loss on loss allowances	5	1	5	1
<b>Balance at the end of the reporting period</b>	<b>6,064</b>	<b>1,809</b>	<b>6,059</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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**13. Deposits with other banks**

	<b>31 December 2022 HRK '000</b>	<b>Group 31 December 2021 HRK '000</b>	<b>31 December 2022 HRK '000</b>	<b>Bank 31 December 2021 HRK '000</b>
Deposits with foreign banks	10,597	7,501	10,597	7,501
Deposits with domestic banks	22,604	-	-	-
Accrued interest	10	-	-	-
	<b>33,211</b>	<b>7,501</b>	<b>10,597</b>	<b>7,501</b>
Loss allowances	(31)	(1)	(1)	(1)
	<b>33,180</b>	<b>7,500</b>	<b>10,596</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 December 2022**

	<b>Stage 1 HRK '000</b>	<b>Stage 2 HRK '000</b>	<b>Stage 3 HRK '000</b>	<b>Group Total HRK '000</b>	<b>Stage 1 HRK '000</b>	<b>Stage 2 HRK '000</b>	<b>Stage 3 HRK '000</b>	<b>Bank Total HRK '000</b>
Gross amount	33,211	-	-	33,211	10,597	-	-	10,597
Loss allowances	(31)	-	-	(31)	(1)	-	-	(1)
<b>Balance as of 31 December 2022</b>	<b>33,180</b>	<b>-</b>	<b>-</b>	<b>33,180</b>	<b>10,596</b>	<b>-</b>	<b>-</b>	<b>10,596</b>

**31 December 2021**

	<b>Stage 1 HRK '000</b>	<b>Stage 2 HRK '000</b>	<b>Stage 3 HRK '000</b>	<b>Group Total HRK '000</b>	<b>Stage 1 HRK '000</b>	<b>Stage 2 HRK '000</b>	<b>Stage 3 HRK '000</b>	<b>Bank Total HRK '000</b>
Gross amount	7,501	-	-	7,501	7,501	-	-	7,501
Loss allowances	(1)	-	-	(1)	(1)	-	-	(1)
<b>Balance as of 31 December 2021</b>	<b>7,500</b>	<b>-</b>	<b>-</b>	<b>7,500</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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

	<b>Jan 1 – Dec 31, 2022</b>	<b>Group Jan 1 - Dec 31, 2021</b>	<b>Jan 1 – Dec 31, 2022</b>	<b>Bank Jan 1 - Dec 31, 2021</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
Balance as of 1 January	1	1	1	1
Net increase/(decrease) of loss allowances on deposits with other banks	28	(1)	(2)	(1)
<i>Total recognised through Income Statement (Note 10)</i>	<i>28</i>	<i>(1)</i>	<i>(2)</i>	<i>(1)</i>
Net foreign exchange gain/loss on loss allowances	2	1	2	1
<b>Balance at the end of the reporting period</b>	<b>31</b>	<b>1</b>	<b>1</b>	<b>1</b>

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**14. Loans to financial institutions**

	<b>Group and Bank</b>	
	<b>31 December 2022</b>	<b>31 December 2021</b>
	<b>HRK '000</b>	<b>HRK '000</b>
Long-term loans under loan programmes	6,937,011	7,043,581
Short-term loans and reverse repo transactions	120,000	83,239
Accrued interest	7,016	3,418
Deferred recognition of loan origination fees	(18,453)	(21,195)
	7,045,574	7,109,043
Loss allowances	(60,862)	(58,900)
	<b>6,984,712</b>	<b>7,050,143</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:

<b>31 December 2022</b>	<b>Group and Bank</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
Gross amount	6,733,206	303,254	9,114	<b>7,045,574</b>
Loss allowances	(26,699)	(27,390)	(6,773)	<b>(60,862)</b>
<b>Balance as of 31 December 2022</b>	<b>6,706,507</b>	<b>275,864</b>	<b>2,341</b>	<b>6,984,712</b>

<b>31 December 2021</b>	<b>Group and Bank</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
Gross amount	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>	<b>6,865,821</b>	<b>180,760</b>	<b>3,562</b>	<b>7,050,143</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

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#### 14. Loans to financial institutions (continued)

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

	<b>Jan 1 - Dec 31, 2022 HRK '000</b>	<b>Group and Bank Jan 1 - Dec 31, 2021 HRK '000</b>
Balance as of 1 January	58,900	82,797
Net increase/(decrease) of loss allowances on loans to financial institutions	1,906	(23,698)
<i>Total recognised through Income Statement (Note 10)</i>	<i>1,906</i>	<i>(23,698)</i>
Net foreign exchange gain/loss on loss allowances	61	(97)
Loss allowances transferred to loans to other customers	-	(16)
Unwinding – changes due to the lapse of time	(5)	(86)
<b>Balance at the end of the reporting period</b>	<b>60,862</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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

	<b>31 December 2022 HRK '000</b>	<b>Group and Bank 31 December 2021 HRK '000</b>
EU Projects	252,822	205,630
Financial Restructuring	28,953	23,247
Pre-Export Finance	1,015	1,013
Public Sector Investment	912,570	826,013
Private Sector Investment	260,251	201,419
Youth, Female, Start-up Entrepreneurship	77,736	57,234
Working Capital	17,230	12,556
Working Capital – COVID 19 measures and CRISIS 2022 <sup>1</sup>	59,228	72,067
Loan programme for reconstruction and development of the economy	720,790	926,987
Export financing	1,261,944	1,459,505
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	809,354	968,724
Loan programme for small and medium-sized enterprises	2,532,328	2,285,623
Loan programme for war-torn and demolished housing and business facilities	2,790	3,563
Other	120,000	83,239
Accrued interest	7,016	3,418
Deferred recognition of loan fees	(18,453)	(21,195)
	<u>7,045,574</u>	<u>7,109,043</u>
Loss allowances	(60,862)	(58,900)
	<b><u>6,984,712</u></b>	<b><u>7,050,143</u></b>

Average interest rates for total loans to financial institutions are stated at 0.28% (31 December 2021: 0.41%) 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 0 thousand (31 December 2021: HRK 8,239 thousand). The above placements are collateralized by securities in the amount of HRK 0 thousand (31 December 2021: HRK 8,660 thousand).

<sup>1</sup> Working Capital Crisis 2022 is a new programme in 2022, and there is no balance in 2022

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**15. Loans to other customers**

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

	<b>Group and Bank</b>	
	<b>31 December 2022 HRK '000</b>	<b>31 December 2021 HRK '000</b>
Domestic companies	12,524,118	11,570,002
State-owned companies	1,575,527	917,403
Public sector	5,940,309	5,545,114
Foreign companies	96,453	377,281
Other	469,801	498,027
Accrued interest	326,389	393,345
Deferred recognition of loan origination fees	(74,906)	(80,880)
	<u>20,857,691</u>	<u>19,220,292</u>
Loss allowances	<u>(3,455,025)</u>	<u>(3,255,916)</u>
	<b><u>17,402,666</u></b>	<b><u>15,964,376</u></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:

<b>31 December 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>POCI HRK '000</b>	<b>Total HRK '000</b>
Gross amount	13,994,014	2,218,779	3,237,261	1,407,637	<b>20,857,691</b>
Loss allowances	(356,231)	(784,089)	(2,091,863)	(222,842)	<b>(3,455,025)</b>
<b>Balance as of 31 December 2022</b>	<b><u>13,637,783</u></b>	<b><u>1,434,690</u></b>	<b><u>1,145,398</u></b>	<b><u>1,184,795</u></b>	<b><u>17,402,666</u></b>

<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>POCI HRK '000</b>	<b>Total HRK '000</b>
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><u>12,779,081</u></b>	<b><u>827,965</u></b>	<b><u>1,163,771</u></b>	<b><u>1,193,559</u></b>	<b><u>15,964,376</u></b>

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

	<b>Jan 1 - Dec 31, 2022 HRK '000</b>	<b>Group and Bank Jan 1 - Dec 31, 2021 HRK '000</b>
Balance as of 1 January	3,255,916	3,475,730
Net increase of loss allowances on loans to other customers and interest	129,990	78,124
<i>Total recognised through Income Statement (Note 10)</i>	<u>129,990</u>	<u>78,124</u>
Net foreign exchange gain/loss on loss allowances	10,178	10,478
Write-offs	(28,183)	(35,053)
Transfer to off-balance sheet records	(20,121)	(271,036)
Derecognition due to the reduction to fair value as a result of the transfer to the portfolio of financial assets at fair value through profit or loss	-	(48,019)
Derecognition due to sale of receivables	-	(737)
Loss allowances transferred from loans to financial institutions	-	16
Unwinding – changes due to the lapse of time	13,859	25,087
Acquisition of immovable property	-	-
Interest transferred from the off-balance sheet records and other	93,386	21,326
<b>Balance at the end of the reporting period</b>	<b><u>3,455,025</u></b>	<b><u>3,255,916</u></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 28,183 thousand relates mostly to the permanent removal from the business records due to the sale of receivables, due to the debtor's bankruptcy proceedings and termination of operations, as well as due to the pre-bankruptcy settlement.

The transfer to the off-balance sheet records in the amount of HRK 20,121 thousand was performed on the basis of the prescribed criteria in the Methodology for the Write-off of Receivables.

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

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

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

	<b>Group and Bank</b>	
	<b>31 December 2022</b>	<b>31 December 2021</b>
	<b>HRK '000</b>	<b>HRK '000</b>
EU Projects	412,237	308,294
Financial Restructuring	1,203,663	1,186,514
Pre-Export Finance	134,084	96,193
Public Sector Investment	2,142,558	1,478,380
Private Sector Investment	1,217,719	730,358
Youth, Female, Start-up Entrepreneurship	50,564	31,287
Working Capital	1,919,588	690,681
Working Capital – COVID 19 measures and CRISIS 2022 <sup>2</sup>	2,639,314	1,645,736
Loan programme for reconstruction and development of the economy	1,849,921	2,254,094
Export financing	3,592,053	4,375,411
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	4,233,452	4,713,628
Loan programme for small and medium-sized enterprises	923,028	1,140,626
Other	288,027	256,625
Accrued interest	326,389	393,345
Deferred recognition of loan origination fees	(74,906)	(80,880)
	<u>20,857,691</u>	<u>19,220,292</u>
Loss allowances	<u>(3,455,025)</u>	<u>(3,255,916)</u>
	<b><u>17,402,666</u></b>	<b><u>15,964,376</u></b>

Average interest rates on loans to other customers are stated at 1.83% (31 December 2021: 1.86%). Average interest rates reflect the ratio of interest income from generated the mentioned placements and average assets.

<sup>2</sup> Working Capital Crisis 2022 is a new programme in 2022, and there is no balance in 2021

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

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

	<b>31 December 2022 HRK '000</b>	<b>Group and Bank 31 December 2021 HRK '000</b>
<b><i>Loans at FVPL:</i></b>		
Mezzanine loans	22,831	16,375
	<b>22,831</b>	<b>16,375</b>
<b><i>Investments in investment funds:</i></b>		
Investments in investment funds at FVPL	107,303	202,260
	<b>107,303</b>	<b>202,260</b>
<b><i>Unlisted equity instruments:</i></b>		
Investments in corporate shares	31	31
Depository receipt - DR	319	318
	<b>350</b>	<b>349</b>
<b>Derivative financial assets-positive fair value</b>	<b>1,039</b>	<b>-</b>
	<b>131,523</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 319 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.

As at 31 December 2022, a positive fair value of derivative financial instruments was stated in the amount of HRK 1,039 thousand (31 December 2021: HRK 0 thousand).

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

	<b>Group</b>		<b>Bank</b>	
	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
<b>Debt instruments:</b>				
<b>Listed debt instruments:</b>				
Bonds of the Republic of Croatia	1,333,611	1,358,981	1,289,066	1,304,974
Corporate bonds	2,179	2,393	-	-
Treasury bills of the Ministry of Finance	1,281,368	1,550,344	1,281,368	1,550,344
Accrued interest	14,321	15,620	13,895	15,194
	<b>2,631,479</b>	<b>2,927,338</b>	<b>2,584,329</b>	<b>2,870,512</b>
<b>Unlisted debt instruments:</b>				
Corporate bonds	464	532	464	532
Convertible bonds - CB	1,472	1,397	1,472	1,397
Accrued interest	32	247	32	247
	<b>1,968</b>	<b>2,176</b>	<b>1,968</b>	<b>2,176</b>
<b>Equity instruments:</b>				
<b>Unlisted equity instruments:</b>				
Investments in shares of foreign legal entities - SWIFT	55	45	55	45
Shares of foreign financial institutions – EIF	53,120	42,971	53,120	42,971
	<b>53,175</b>	<b>43,016</b>	<b>53,175</b>	<b>43,016</b>
	<b>2,686,622</b>	<b>2,972,530</b>	<b>2,639,472</b>	<b>2,915,704</b>

Non-listed convertible bonds (CB) of the Fortenova Group TopCo B.V. in the amount of HRK 1,472 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.

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

31 December 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	2,631,479	496	1,472	2,633,447	2,584,329	496	1,472	2,586,297
<b>Balance as of 31 December 2022</b>	<b>2,631,479</b>	<b>496</b>	<b>1,472</b>	<b>2,633,447</b>	<b>2,584,329</b>	<b>496</b>	<b>1,472</b>	<b>2,586,297</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
<b>Balance as of 31 December 2021</b>	<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>

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

	Group			Bank
	Jan 1 – Dec 31, 2022 HRK '000	Jan 1 – Dec 31, 2021 HRK '000	Jan 1 – Dec 31, 2022 HRK '000	Jan 1 – Dec 31, 2021 HRK '000
Balance as of 1 January	4,545	4,582	4,455	4,499
Net increase/(release) of loss allowances	104	(29)	107	(36)
<i>Total recognised through Income Statement (Note 10)</i>	<i>104</i>	<i>(29)</i>	<i>107</i>	<i>(36)</i>
Net foreign exchange gain/loss on loss allowances	4	(8)	4	(8)
<b>Balance at the end of the reporting period</b>	<b>4,653</b>	<b>4,545</b>	<b>4,566</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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

The following text contains investment breakdown:

	Date of issue	Date of maturity	Interest rate (%)	31 December 2022 HRK '000	Group 31 December 2021 HRK '000	30 December 2022 HRK '000	Bank 31 December 2021 HRK '000
<b>Debt instruments:</b>							
Listed debt instruments:							
<i>Bonds of the Republic of Croatia with a currency clause:</i>							
	RHMF-O-227E	22.7.2011.	22.7.2022.	6.5	-	148,536	148,536
	RHMF-O-247E	10.7.2013.	10.7.2024.	5.75	159,870	48,638	43,668
	RHMF-O222E	5.2.2019.	5.2.2022.	0.5	-	15,032	15,032
	RHMF-O-267E	15.7.2022.	15.7.2026	2.13	153,961	-	153,961
<i>Bonds of the Republic of Croatia in foreign currency:</i>							
	XS1117298916	11.3.2015.	11.3.2025.	3.0	285,076	312,397	312,397
	XS1843434876	19.6.2019.	19.6.2029.	1.125	12,776	15,301	15,301
	XS1028953989	29.5.2014.	30.5.2022.	3.875	-	54,241	54,241
<i>Bonds of the Republic of Croatia in HRK:</i>							
	RHMF-O-257A	9.7.2015.	9.7.2025.	4.5	8,716	9,648	-
	RHMF-O-26CA	14.12.2015.	14.12.2026.	4.25	39,294	45,344	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	11,491	13,583	11,422
	RHMF-O-023BA	27.11.2017.	27.11.2023.	1.75	556,993	508,648	508,648
	RHMF-O-297A	9.7.2018.	9.7.2029.	2.38	2,826	3,456	-
	RHMF-O-34BA	27.11.2019.	27.11.2034.	1.00	11,885	15,743	-
	RHMF-O-403E	3.3.2020.	3.3.2040.	1.25	6,382	8,500	-
	RHMF-O-253A	3.3.2020.	3.3.2025.	0.25	75,146	80,082	80,082
	RHMFO-24BA	27.11.2019.	27.11.2024.	0.25	9,195	9,667	9,667
<i>Corporate bonds in HRK:</i>							
	JDGL-O-24XA	18.12.2019.	18.12.2024.	1.75	801	1,015	-
	HRATGRO25CA5	11.12.2020.	11.12.2025.	0.88	1,378	1,378	-
	Treasury bills in HRK up to 364 days			0.000-0.184	1,281,368	1,400,000	1,400,000
	Treasury bills in foreign currency up to 364 days			0.000	-	150,344	150,344
	Accrued interest				14,321	15,620	13,895
					<b>2,631,479</b>	<b>2,927,338</b>	<b>2,584,329</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	464	532	532
<i>Bonds of foreign corporate in foreign currency</i>							
	Fortenova Group TopCo B.V.	1.4.2019.	1.4.2029.	2.5	1,472	1,397	1,397
	Accrued interest				32	247	247
					<b>1,968</b>	<b>2,176</b>	<b>1,968</b>
							<b>2,176</b>
<b>Equity instruments:</b>							
<i>Unlisted equity instruments:</i>							
	Investments in shares of foreign legal entities - SWIFT				55	45	55
	Investments in shares of foreign financial institutions - EIF				53,120	42,971	42,971
					<b>53,175</b>	<b>43,016</b>	<b>53,175</b>
							<b>43,016</b>
<b>Total</b>					<b>2,686,622</b>	<b>2,972,530</b>	<b>2,639,472</b>
							<b>2,915,704</b>

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**18. Investments in subsidiaries**

As at 31 December 2022, the Bank's subsidiaries are as follows:

Consolidated company	Activity	Ownership 31 December 2022	Ownership 31 December 2021	Investment 31 December 2022	Investment 31 December 2021
<b>Direct share</b>					
Hrvatsko kreditno osiguranje d.d. Zagreb, Republic of Croatia	Providing insurance for company's foreign and domestic short-term receivables regarding shipments of goods and services	100%	100%	56,124	36,124
<b>Total</b>				<b>56,124</b>	<b>36,124</b>

By the Decision of the Supervisory Board of HBOR made on the 7th meeting held on 27 September 2022, the payment in cash by HBOR of new ordinary shares of Hrvatsko kreditno osiguranje d.d., Zagreb in the amount of HRK 20,000 thousand has been approved.

The General Assembly of HKO took place on 29 September 2022, when a Decision was made to increase the equity capital of the company by HRK 20,000 thousand to be paid-in by HBOR on 4 October 2022. On 13 October 2022, the Commercial Court in Zagreb issued a Resolution on the Amendments to the Statutes and the Increase in the Equity Capital of the HKO Company.

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**19. Property, plant and equipment and intangible assets**

Group	Buildings	Computers	Furniture, equipment and vehicles	Property, plant and equipment and intangible assets not ready for use	Total property, plant and equipment	Intangible assets	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>31 December 2022</b>							
<b>Cost</b>							
<b>At 31 December 2021</b>	<b>78,020</b>	<b>13,851</b>	<b>12,929</b>	<b>55</b>	<b>104,855</b>	<b>35,922</b>	<b>140,777</b>
Additions	-	24	12	4,502	4,538	45	4,583
Transfer from assets not yet ready for use	-	466	1,649	(4,494)	(2,379)	2,379	-
Disposals and write-offs	-	(3,802)	(2,808)	-	(6,610)	(306)	(6,916)
Returned to use	-	2	25	-	27	-	27
<b>At 31 December 2022</b>	<b>78,020</b>	<b>10,541</b>	<b>11,807</b>	<b>63</b>	<b>100,431</b>	<b>38,040</b>	<b>138,471</b>
<b>Accumulated depreciation and write-off</b>							
<b>At 31 December 2021</b>	<b>44,971</b>	<b>11,525</b>	<b>10,771</b>	<b>-</b>	<b>67,267</b>	<b>29,573</b>	<b>96,840</b>
Depreciation for 2022	4,017	2,110	862	-	6,989	2,691	9,680
Disposals and write-offs	-	(3,802)	(2,799)	-	(6,601)	(306)	(6,907)
Returned to use	-	2	25	-	27	-	27
<b>At 31 December 2022</b>	<b>48,988</b>	<b>9,835</b>	<b>8,859</b>	<b>-</b>	<b>67,682</b>	<b>31,958</b>	<b>99,640</b>
<b>Net book value at 31 December 2022</b>	<b>29,032</b>	<b>706</b>	<b>2,948</b>	<b>63</b>	<b>32,749</b>	<b>6,082</b>	<b>38,831</b>
<b>Net book value at 31 December 2021</b>	<b>33,049</b>	<b>2,326</b>	<b>2,158</b>	<b>55</b>	<b>37,588</b>	<b>6,349</b>	<b>43,937</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**19. Property, plant and equipment and intangible assets (continued)**

Group	Buildings	Computers	Furniture, equipment and vehicles	Property, plant and equipment and intangible assets not ready for use	Total property, plant and equipment	Intangible assets	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>31 December 2021</b>							
<b>Cost</b>							
<b>At 31 December 2020</b>	<b>78,020</b>	<b>10,037</b>	<b>13,788</b>	<b>49</b>	<b>101,894</b>	<b>37,117</b>	<b>139,011</b>
Additions	-	93	374	6,083	6,550	23	6,573
Transfer from assets not yet ready for use	-	3,919	40	(6,077)	(2,118)	2,118	-
Disposals and write-offs	-	(198)	(1,273)	-	(1,471)	(3,337)	(4,808)
Reclassification (+/-)	-	-	-	-	-	1	1
<b>At 31 December 2021</b>	<b>78,020</b>	<b>13,851</b>	<b>12,929</b>	<b>55</b>	<b>104,855</b>	<b>35,922</b>	<b>140,777</b>
<b>Accumulated depreciation and write-off</b>							
<b>At 31 December 2020</b>	<b>40,955</b>	<b>9,531</b>	<b>11,466</b>	<b>-</b>	<b>61,952</b>	<b>30,611</b>	<b>92,563</b>
Depreciation for 2021	4,016	2,192	599	-	6,807	2,299	9,106
Disposals and write-offs	-	(198)	(1,273)	-	(1,471)	(3,337)	(4,808)
Reclassification (+/-)	-	-	(21)	-	(21)	-	(21)
<b>At 31 December 2021</b>	<b>44,971</b>	<b>11,525</b>	<b>10,771</b>	<b>-</b>	<b>67,267</b>	<b>29,573</b>	<b>96,840</b>
<b>Net book value at 31 December 2021</b>	<b>33,049</b>	<b>2,326</b>	<b>2,158</b>	<b>55</b>	<b>37,588</b>	<b>6,349</b>	<b>43,937</b>
<b>Net book value at 31 December 2020</b>	<b>37,065</b>	<b>506</b>	<b>2,322</b>	<b>49</b>	<b>39,942</b>	<b>6,506</b>	<b>46,448</b>

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**19. Property, plant and equipment and intangible assets (continued)**

Bank	Buildings	Computers	Furniture, equipment and vehicles	Property, plant and equipment and intangible assets not ready for use	Total property, plant and equipment	Intangible assets	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>31 December 2022</b>							
<b>Cost</b>							
<b>At 31 December 2021</b>	<b>77,102</b>	<b>13,201</b>	<b>12,320</b>	<b>55</b>	<b>102,678</b>	<b>34,801</b>	<b>137,479</b>
Additions	-	-	-	4,389	4,389	-	4,389
Transfer from assets not ready for use	-	466	1,649	(4,381)	(2,266)	2,266	-
Disposals and write-offs	-	(3,802)	(2,803)	-	(6,605)	(306)	(6,911)
Returned to use	-	2	25	-	27	-	27
<b>At 31 December 2022</b>	<b>77,102</b>	<b>9,867</b>	<b>11,191</b>	<b>63</b>	<b>98,223</b>	<b>36,761</b>	<b>134,984</b>
<b>Accumulated depreciation and write-off</b>							
<b>At 31 December 2021</b>	<b>44,383</b>	<b>10,975</b>	<b>10,557</b>	<b>-</b>	<b>65,915</b>	<b>28,890</b>	<b>94,805</b>
Depreciation for 2022	3,855	2,038	768	-	6,661	2,666	9,327
Disposals and write-offs	-	(3,802)	(2,794)	-	(6,596)	(306)	(6,902)
Returned to use	-	2	25	-	27	-	27
<b>At 31 December 2022</b>	<b>48,238</b>	<b>9,213</b>	<b>8,556</b>	<b>-</b>	<b>66,007</b>	<b>31,250</b>	<b>97,257</b>
<b>Net book value at 31 December 2022</b>	<b>28,864</b>	<b>654</b>	<b>2,635</b>	<b>63</b>	<b>32,216</b>	<b>5,511</b>	<b>37,727</b>
<b>Net book value at 31 December 2021</b>	<b>32,719</b>	<b>2,226</b>	<b>1,763</b>	<b>55</b>	<b>36,763</b>	<b>5,911</b>	<b>42,674</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**19. Property, plant and equipment and intangible assets (continued)**

Bank	Buildings	Computers	Furniture, equipment and vehicles	Property, plant and equipment and intangible assets not ready for use	Total property, plant and equipment	Intangible assets	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>31 December 2021</b>							
<b>Cost</b>							
<b>At 31 December 2020</b>	<b>77,102</b>	<b>9,480</b>	<b>13,547</b>	<b>49</b>	<b>100,178</b>	<b>36,191</b>	<b>136,369</b>
Additions	-	-	-	5,912	5,912	-	5,912
Transfer from assets not ready for use	-	3,919	40	(5,906)	(1,947)	1,947	-
Disposals and write-offs	-	(198)	(1,267)	-	(1,465)	(3,337)	(4,802)
<b>At 31 December 2021</b>	<b>77,102</b>	<b>13,201</b>	<b>12,320</b>	<b>55</b>	<b>102,678</b>	<b>34,801</b>	<b>137,479</b>
<b>Accumulated depreciation and write-off</b>							
<b>At 31 December 2020</b>	<b>40,528</b>	<b>9,051</b>	<b>11,251</b>	<b>-</b>	<b>60,830</b>	<b>29,947</b>	<b>90,777</b>
Depreciation for 2021	3,855	2,122	573	-	6,550	2,280	8,830
Disposals and write-offs	-	(198)	(1,267)	-	(1,465)	(3,337)	(4,802)
<b>At 31 December 2021</b>	<b>44,383</b>	<b>10,975</b>	<b>10,557</b>	<b>-</b>	<b>65,915</b>	<b>28,890</b>	<b>94,805</b>
<b>Net book value at 31 December 2021</b>	<b>32,719</b>	<b>2,226</b>	<b>1,763</b>	<b>55</b>	<b>36,763</b>	<b>5,911</b>	<b>42,674</b>
<b>Net book value at 31 December 2020</b>	<b>36,574</b>	<b>429</b>	<b>2,296</b>	<b>49</b>	<b>39,348</b>	<b>6,244</b>	<b>45,592</b>

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**20. Foreclosed assets**

	<b>31 December 2022 HRK '000</b>	<b>Group and Bank 31 December 2021 HRK '000</b>
Foreclosed assets, net	24,776	21,369
	<b>24,776</b>	<b>21,369</b>

In 2022, acquisition of property took place with present value in the amount of HRK 4,487 thousand, acquisition value of HRK 4,487 thousand and provisions of HRK 0 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, and buildings in the amount of HRK 4,253 thousand, acquisition value of HRK 4,253 thousand and provisions of HRK 0 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 property acquired in 2022 amounted to HRK 12,398 thousand at the end of 2022.

In 2022, sale of foreclosed assets took place with present value in the amount of HRK 243 thousand, acquisition value and provisions of HRK 820 thousand and provisions of HRK 577 thousand, and relates to land plot in the amount of HRK 87 thousand and apartments in the amount of HRK 156 thousand (in 2021, sale of foreclosed assets took place with present value in the amount of HRK 10,156 thousand, acquisition value and provisions of HRK 24,218 thousand and provisions of HRK 14,062 thousand, and relates to land plot in the amount of HRK 486 thousand, buildings in the amount of HRK 2,886 thousand and apartments in the amount of HRK 6,784 thousand).

In 2022, foreclosed assets was transferred to lease on the item Investments in property in the amount of HRK 1,290 thousand (2021: HRK 2,757 thousand), which is presented under Other assets due to immaterial significance. In 2022, this property was depreciated in the amount of HRK 133 thousand (2021: HRK 133 thousand).

The fair value of total foreclosed assets at the beginning of the reporting period stood at HRK 29,951 thousand and the end of the reporting period at HRK 42,122 thousand.

Adjustment increase amount for the Group and the Bank that has an effect on the profit or loss stood at HRK 2,171 thousand in 2022 (in 2021: increase of HRK 750 thousand).

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**21. Other assets**

	<b>31 December 2022 HRK '000</b>	<b>Group 31 December 2021 HRK '000</b>	<b>31 December 2022 HRK '000</b>	<b>Bank 31 December 2021 HRK '000</b>
Fees receivable	26,676	25,787	26,676	25,787
Other receivables	12,244	10,609	12,244	10,609
Prepaid expenses	2,913	3,344	2,514	3,018
Accrued income	16,551	22,923	16,550	22,921
Premium receivables	3,575	1,797	-	-
Receivables for reinsurance commissions	2,259	645	-	-
Receivables for risk assessment fees	312	324	-	-
Deferred tax assets	1,174	-	-	-
Leased assets	3,815	801	3,815	801
Other assets	1,763	3,158	1,568	3,055
	<b>71,282</b>	<b>69,388</b>	<b>63,367</b>	<b>66,191</b>
Loss allowances	<b>(35,348)</b>	<b>(31,851)</b>	<b>(35,175)</b>	<b>(31,697)</b>
	<b>35,934</b>	<b>37,537</b>	<b>28,192</b>	<b>34,494</b>

Lease assets are recognised in accordance with the application of the IFRS 16 and depreciation during the year stood at HRK 1,788 thousand for the Group and Bank.

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

31 December 2022	Stage 1				Stage 2				Stage 3				POCI				Group		Bank	
	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK		
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000		
Gross amount	8,423	3	36,321	319	45,066	2,277	3	36,321	319	38,920										
Loss allowances	(195)	(1)	(34,891)	(261)	(35,348)	(22)	(1)	(34,891)	(261)	(35,175)										
<b>Balance as of 31 December 2022</b>	<b>8,228</b>	<b>2</b>	<b>1,430</b>	<b>58</b>	<b>9,718</b>	<b>2,255</b>	<b>2</b>	<b>1,430</b>	<b>58</b>	<b>3,745</b>										

31 December 2021	Stage 1				Stage 2				Stage 3				POCI				Group		Bank	
	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK		
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'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)										
<b>Balance as of 31 December 2021</b>	<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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**21. Other assets (continued)**

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

	<b>31 December 2022 HRK '000</b>	<b>Group 31 December 2021 HRK '000</b>	<b>31 December 2022 HRK '000</b>	<b>Bank 31 December 2021 HRK '000</b>
Fees receivable	26,676	25,787	26,676	25,787
Other receivables	12,244	10,609	12,244	10,609
Premium receivables	3,575	1,797	-	-
Receivables for reinsurance commissions	2,259	645	-	-
Receivables for risk assessment fees	312	324	-	-
	<u>45,066</u>	<u>39,162</u>	<u>38,920</u>	<u>36,396</u>
Loss allowance	(35,348)	(31,851)	(35,175)	(31,697)
<b>Subtotal – assets exposed to credit risk</b>	<b><u>9,718</u></b>	<b><u>7,311</u></b>	<b><u>3,745</u></b>	<b><u>4,699</u></b>

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

	<b>Jan 1 - Dec 31, 2022 HRK '000</b>	<b>Group Jan 1 - Dec 31, 2021 HRK '000</b>	<b>Jan 1 - Dec 31, 2022 HRK '000</b>	<b>Bank Jan 1 - Dec 31, 2021 HRK '000</b>
Balance as of 1 January	31,851	34,536	31,697	34,396
Net increase/(release) of loss allowances on other assets	3,764	(2,542)	3,731	(2,551)
<i>Total recognised through Income statement (Note 10)</i>	<u>3,764</u>	<u>(2,542)</u>	<u>3,731</u>	<u>(2,551)</u>
Write-offs	(47)	(14)	(35)	(2)
Transfer to off-balance sheet records	-	(149)	-	(149)
Acquisition of immovable property	-	-	-	-
Net foreign exchange gain/loss on loss allowances	(216)	3	(216)	3
Other adjustments	(4)	17	(2)	-
<b>Balance at the end of the reporting period</b>	<b><u>35,348</u></b>	<b><u>31,851</u></b>	<b><u>35,175</u></b>	<b><u>31,697</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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**22. Deposits from customers**

	<b>31 December 2022 HRK '000</b>	<b>Group and Bank 31 December 2021 HRK '000</b>
Bank deposits and foreign currency deposits of foreign financial institutions	150,690	417,163
Foreign currency regular accounts of companies	6	6
Foreign currency account of the Ministry of Finance of the Republic of Croatia	71,076	96,666
Foreign currency special purpose accounts of the companies	52,411	58,567
Foreign currency special accounts of banks	1,205	-
Foreign currency special accounts of foreign financial institutions	15	3,059
State institutions' deposits	729,039	341,810
Other deposits	20,087	43,270
	<u>1,024,529</u>	<u>960,541</u>
Accrued interest	94	-
	<b><u>1,024,623</u></b>	<b><u>960,541</u></b>

Bank deposits in 2022 relate mostly to loro deposits of the Bulgarian Development Bank AD and European Investment Bank (EIB).

The foreign currency account of the Ministry of Finance of the Republic of Croatia relates to the Export Insurance Guarantee Fund comprising of reinsurance premiums paid for export insurance operations of HRK 71,076 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 December 2022. amounted to HRK 15 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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**23. Borrowings**

	<b>31 December 2022 HRK '000</b>	<b>Group and Bank 31 December 2021 HRK '000</b>
Balance as of 1 January	16,104,000	16,852,094
New borrowings	2,981,142	1,668,482
Repayments	(2,631,688)	(2,391,147)
Net foreign exchange gain/loss	45,676	(25,429)
	<u>16,499,130</u>	<u>16,104,000</u>
Accrued interest	30,102	34,657
Deferred fees	(27,956)	(23,420)
	<u><b>16,501,276</b></u>	<u><b>16,115,237</b></u>

	<b>31 December 2022 HRK '000</b>	<b>Group and Bank 31 December 2021 HRK '000</b>
Borrowings from foreign financial institutions	13,999,130	14,604,000
Borrowings from domestic institutions	2,500,000	1,500,000
	<u>16,499,130</u>	<u>16,104,000</u>
Accrued interest	30,102	34,657
Deferred recognition of fees	(27,956)	(23,420)
	<u><b>16,501,276</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 loans from the Ministry of Finance of the Republic of Croatia.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

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

	<b>Group</b>		<b>Bank</b>
	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>
	<b>2022</b>	<b>2021</b>	<b>2021</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
Provisions for guarantees and commitments	80,726	129,587	129,587
Provisions for other liabilities	61,989	60,973	60,716
	<b>142,715</b>	<b>190,560</b>	<b>190,303</b>

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

	<b>Group</b>		<b>Bank</b>
	<b>Jan 1 - Dec</b>	<b>Jan 1 - Dec</b>	<b>Jan 1 - Dec</b>
	<b>31, 2022</b>	<b>31, 2021</b>	<b>31, 2021</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
Balance as of 1 January	129,587	45,556	45,556
Net (release)/increase of loss allowances on guarantees	(33,742)	74,799	74,799
<i>Total recognised through Income Statement (Note 10)</i>	<i>(33,742)</i>	<i>74,799</i>	<i>(33,742)</i>
Net (release)/increase of loss allowances on commitments	(14,440)	7,503	7,503
<i>Total recognised through Income Statement (Note 10)</i>	<i>(14,440)</i>	<i>7,503</i>	<i>7,503</i>
Net foreign exchange on loss allowances	(679)	1,729	1,729
<b>Balance at the end of the reporting period - Provisions for guarantees and commitments</b>	<b>80,726</b>	<b>129,587</b>	<b>129,587</b>
Balance as of 1 January	60,973	62,500	62,240
Net increase/(release) of loss allowances on other liabilities	257	(2,358)	(2,355)
<i>Total recognised through Income Statement (Note 10)</i>	<i>257</i>	<i>(2,358)</i>	<i>474</i>
Unrealised actuarial gains/(losses)	759	831	831
<b>Balance at the end of the reporting period - Provisions for other liabilities</b>	<b>61,989</b>	<b>60,973</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.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

Out of the total provisions for guarantees and commitments, the amount of HRK 1,328 thousand relates to financial institutions (31 December 2021: HRK 2,695 thousand), HRK 77,739 thousand relates to domestic companies (31 December 2021: HRK 125,172 thousand), HRK 45 thousand relates to the public sector (31 December 2021: HRK 1,371 thousand), HRK 1,140 thousand relates to non-profit institutions (31 December 2021: HRK 239 thousand), HRK 474 thousand relates to other (31 December 2021: HRK 110 thousand).

In 2022, provisions for other liabilities for the Group totalled HRK 61,989 thousand (31 December 2021: HRK 60,973 thousand) and for the Bank stood at HRK 61,949 thousand (31 December 2021: HRK 60,716 thousand). The total amount of provisions for other liabilities was comprised of HRK 10,174 thousand for court proceedings initiated against the Bank for the Group and for the Bank (31 December 2021: HRK 8,204 thousand), HRK 39,570 thousand for liabilities for the Group and for the Bank based on benefits defined in accordance with IAS 19 Employee Benefits (31 December 2021: HRK 38,304 thousand), and in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets HRK 12,245 thousand for provisions for other liabilities for the Group (31 December 2021: HRK 14,465 thousand) and HRK 12,205 thousand for the Bank (31 December 2021: HRK 14,208 thousand).

The latest actuarial assessment of present value of liabilities based on defined benefits as at 31 December 2022 was performed by a certified actuary. The model took into account mortality, fluctuation of employees, growth rate in defined benefits and discount rate, and the calculations for every employee considered age, gender, years of service, expected mortality and discount rate, i.e. the long-run sustainable yield rate on bonds of the Republic of Croatia.

The applied discount rate that represents the yield rate on bonds sustainable in the long run is 1.80%, whereas it stood at 1.25% in the previous year.

Unrealised actuarial gains/(losses) arising from the calculation of provisions are stated within the framework of other comprehensive income so that net assets or liability may reflect the entire value of deficit or surplus planned.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**25. Other liabilities**

	<b>31 December 2022 HRK '000</b>	<b>Group 31 December 2021 HRK '000</b>	<b>31 December 2022 HRK '000</b>	<b>Bank 31 December 2021 HRK '000</b>
Liabilities in respect of subsidized interest (a)	448,289	174,027	448,289	174,027
Deferred recognition of interest income (b)	175,599	186,159	175,599	186,159
Accrued salaries	8,795	8,613	8,528	8,397
Liabilities to suppliers	1,130	2,180	1,015	2,065
Liabilities for prepaid receivables	8,926	4,921	8,926	4,921
Deferrable premium	5,723	5,219	-	-
Provisions for claims	4,932	6,815	-	-
Provisions for return premiums	1,910	1,454	-	-
Liabilities to re-insurers	8,349	2,443	-	-
Deferred tax liabilities	310	401	-	-
Corporate income tax-current liability	15	208	-	-
Lease liabilities	4,047	1,148	3,867	800
Other liabilities	8,498	41,651	6,909	39,809
	<b>676,523</b>	<b>435,239</b>	<b>653,133</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 312,972 thousand in respect of the Programme of Preferential Financing through HBOR's Loan Programmes (31 December 2020: HRK 168,750 thousand),
- HRK 7 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 0 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 0 thousand (31 December 2021: HRK 1,500 thousand),
- Financial instrument of the Interest Subsidy Fund for loans to micro, small and medium-sized business entities in the amount of HRK 42,496 thousand (31 December 2021: HRK 0 thousand),
- Financial instrument of the Interest Subsidy Fund for loans to mid-cap entities and large business entities in the amount of HRK 46,407 thousand (31 December 2021: HRK 0 thousand),
- Financial instrument of the Interest Subsidy Fund for loans to public sector entities in the amount of HRK 46,407 thousand (31 December 2021: HRK 0 thousand).

(b) Deferred recognition of interest income of HRK 175,559 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 44,861 thousand (31 December 2021: HRK 58,042 thousand), and in respect of those already in repayment stage amounting to HRK 130,738 thousand (31 December 2021: HRK 128,117 thousand) (see Note 4.1. L. Government grants).

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

## 26. Founder's capital

Under the HBOR Act, the prescribed founder's capital should amount to HRK 7,000,000 thousand, paid from the State Budget and from other sources as specified by separate laws.

The schedule of annual amounts of payment and the time schedule of payments out of the State Budget into the capital are not set in advance, but are determined by the Croatian Parliament as part of the process of adoption of the State Budget of the Republic of Croatia.

Within its Accounting policies, the Group has set out its objectives of capital management, category of capital managed by the Bank as well as measuring and assessing the policies for capital management. Capital management is described and presented in Note 34.

Founder's capital of the subsidiary Hrvatsko kreditno osiguranje d.d. amounts to HRK 57,500 thousand and is 100% owned by the Bank, and the founder's capital of the company Poslovni info servis d.o.o. amounts to HRK 300 thousand and is 100% owned by Hrvatsko kreditno osiguranje d.d.. The capital of both companies is subscribed and paid in full.

By the decision of the Supervisory Board of HBOR made on 7th meeting held on 27 September, 2022, on the payment in cash of new ordinary shares of the company Hrvatsko kreditno osiguranje d.d., Zagreb by HBOR and on the vote to increase the equity capital of that company at the General Assembly of HKO, the equity capital of the subsidiary company was increased from HRK 37,500 thousand to HRK 57,500 thousand.

The General Assembly of HKO took place on 29 September 2022, when a Decision was made to increase the founder's capital of the company by HRK 20,000 thousand to be paid-in by HBOR on 4 October 2022. On 13 October 2022, the Commercial Court in Zagreb issued a Resolution on the Amendments to the Statutes and the Increase in the Founder's Capital of the HKO Company.

## 27. Guarantee fund

Group and Bank	HRK '000
<b>Balance as of 1 January 2021</b>	<b>12,341</b>
Net foreign exchange	(32)
<b>Balance as of 31 December 2021</b>	<b>12,309</b>
Net foreign exchange	28
<b>Balance as of 31 December 2022</b>	<b>12,337</b>

The Guarantee fund of HRK 12,337 thousand and HRK 12,309 thousand as of 31 December 2022 and 2021 respectively, relates to funds of the guarantee fund from Deutsche Investitions- und Entwicklungsgesellschaft (DEG) in respect of a financial contribution (granted funds) for the account of the German Government, which are used for covering contingent losses on guarantees issued for loans granted under the Programme for financing business start-ups in Croatia. The funds of the Guarantee fund are unconditionally contributed and have no maturity. The funds of the Guarantee fund give the Government of the Federal Republic of Germany neither controlling rights nor a right to a share of the operating results of the Group.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**28. Guarantees and commitments**

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

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

**Group and Bank**

	<b>31 December 2022 HRK '000</b>	<b>31 December 2021 HRK '000</b>
Guarantees issued in HRK	115,427	170,555
Guarantees issued in foreign currency	194,098	325,103
Undrawn loans	2,668,118	3,492,038
Open letters of credit in foreign currency	1,243	-
EIF – subscribed, not called up capital	78,358	78,179
EIF CROGIP Contracted Liability	273,324	312,489
EIF FRC2 Contracted Liability	3,037	6,243
	<u>3,333,605</u>	<u>4,384,607</u>
Provisions for guarantees and commitments	(80,726)	(129,587)
	<u><b>3,252,879</b></u>	<u><b>4,255,020</b></u>

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

	<b>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 December 2022</b>						
Gross amount	2,580,439	89,319	179,389	128,496	1,243	<b>2,978,886</b>
Loss allowances	(10,456)	(12,581)	(53,440)	(4,249)	-	<b>(80,726)</b>
<b>Balance as of 31 December 2022</b>	<u><b>2,569,983</b></u>	<u><b>76,738</b></u>	<u><b>125,949</b></u>	<u><b>124,247</b></u>	<u><b>1,243</b></u>	<u><b>2,898,160</b></u>
<b>31 December 2021</b>						
Gross amount	3,311,893	302,747	326,551	46,505	-	<b>3,987,696</b>
Loss allowances	(10,652)	(26,256)	(82,779)	(9,900)	-	<b>(129,587)</b>
<b>Balance as of 31 December 2021</b>	<u><b>3,301,241</b></u>	<u><b>276,491</b></u>	<u><b>243,772</b></u>	<u><b>36,605</b></u>	<u><b>-</b></u>	<u><b>3,858,109</b></u>

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

*Guarantees*

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

Bank guarantees are, to the extent of 11%, collateralized by the guarantees, deposits and bank guarantees.

*Commitments upon undrawn loans*

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**29. Managed funds for and on behalf of third parties**

The Group manages funds on behalf of and for the account of the Ministry of Finance, the Ministry of the Economy and Sustainable Development, the Ministry of the Sea, Transport and Infrastructure, the Ministry of Agriculture, the Ministry of Regional Development and EU Funds, the Ministry of Foreign and European Affairs, the Ministry of Tourism and Sport, the company Vodovod i kanalizacija d.o.o., Split, the Croatian Agency for SMEs, Innovations and Investments (“HAMAG-BICRO”) and commercial banks, that are mainly used for various reconstruction and development programmes. These assets are separated from the Group’s assets. The income and expense relating to these transactions are charged to the principal, and the Group does not have any other liabilities. The Group charges a fee for part of the services and part of the services are performed free of charge depending on the contract with the customer and taking into account that the stated amounts are insignificant for the Group.

Agency business funds per individual programmes amount to:

**Group and Bank**

<b>Program</b>	<b>31 December 2022 HRK '000</b>	<b>31 December 2021 HRK '000</b>
Development and Reconstruction of Rural Housing	17,386	19,127
Employment of Former Soldiers	289,672	284,221
Collection of receivables under HAMAG-BICRO guarantees	88	105
Insurance of export transactions	746,830	628,852
Programme of Preferential Financing through HBOR's Loan Programmes - Ministry of Finance	312,972	168,750
Programme for Regional Development of the Republic of Croatia - loans	1,209	2,227
Renewable Energy Resources Project	1,512	1,368
VIK – EKO account A – dedicated water charge	783,598	749,298
VIK – EKO account B – VAT	157,205	157,018
Financing the Establishment of Fishing Infrastructure – Ministry of the Sea, Transport and Infrastructure	46,665	46,665
Micro-Loans with EU Support – commercial banks	732	797
Transactions related to investments in the Economic Co-operation Funds <sup>3</sup>	27,513	49,567
ESIF – Growth and Expansion Loans	838,813	847,096
ESIF - Energy Efficiency in Public Sector Buildings	211,735	208,118
ESIF - Loans for Public Lighting	164,092	120,444
Investment loans for rural development	10,818	11,917
Working Capital COVID-19 Measure for SMEs in tourism industry	7	3,468
Working Capital COVID-19 Measure for entrepreneurs in wood processing and furniture production industry	-	309
Working Capital for rural development	259,126	259,159
Ministry of Tourism and Sport, subsidised interest for the purchase of mobile homes for business entities in the tourism industry	-	1,500
Investment in the Three Seas Initiative Investment Fund <sup>4</sup>	80,132	52,768
NRRP – Interest Subsidy Fund for SMEs	46,095	-
NRRP – Interest Subsidy Fund for MIDCAP and Large entrepreneurs	50,005	-
NRRP – Interest Subsidy for Public Sector	50,005	-
NRRP – Special SME Segments Loans	125,011	-
NRRP – Guarantee Fund	150,000	-
	<b>4,371,221</b>	<b>3,612,774</b>

<sup>3 and 4</sup> The fair value of net assets value of the Economic Co-operation Funds and the Three Seas Initiative Investment Fund in 2022 is recognised on the basis of the latest available data and does not represent the final fair value, whereas, in 2021, the amount was recognised in accordance with the audited financial statements.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**30. Related-party transactions**

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

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

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

As of 31 December 2022 and 31 December 2021 balances arising from transactions with related parties, including the Bank's key management personnel, include the following:

a) Related-party transactions

Group	Assets	Liabilities	Assets	Liabilities
	31 December 2022	31 December 2022	31 December 2021	31 December 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	3,123,836	3,511,639	3,348,080	1,853,263
Government funds, executive authorities and agencies	4,857,662	236,781	4,617,620	257,050
State-owned companies	1,645,658	5,971	914,416	59
Associates	-	-	7	-
Key management personnel	2,292	2,772	3,393	2,701
<b>Total</b>	<b>9,629,448</b>	<b>3,757,163</b>	<b>8,883,516</b>	<b>2,113,073</b>

Group	Income	Expense	Income	Expense
	Jan 1 – Dec 31 2022	Jan 1 – Dec 31 2022	Jan 1 – Dec 31 2021	Jan 1 – Dec 31 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	41,738	15,957	50,497	28,730
Government funds, executive authorities and agencies	97,745	12,321	89,571	1,044
State-owned companies	75,853	56,035	45,248	49,542
Associates	-	-	26	1
Key management personnel	69	9,622	3,738	8,976
<b>Total</b>	<b>215,405</b>	<b>93,935</b>	<b>189,080</b>	<b>88,293</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

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

a) Related-party transactions (continued)

Bank	Assets		Liabilities	
	31 December 2022	31 December 2022	31 December 2021	31 December 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	3,123,836	3,511,639	3,348,080	1,853,263
Government funds, executive authorities and agencies	4,812,668	236,690	4,563,167	257,009
State-owned companies	1,645,654	5,969	914,412	54
Subsidiary companies	56,124	-	36,124	-
Associates	-	-	7	-
Key management personnel	2,292	2,646	3,393	2,585
<b>Total</b>	<b>9,640,574</b>	<b>3,756,944</b>	<b>8,865,183</b>	<b>2,112,911</b>

Bank	Income		Expense	
	Jan 1 – Dec 31 2022	Jan 1 – Dec 31 2022	Jan 1 – Dec 31 2021	Jan 1 – Dec 31 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	41,738	15,957	50,497	28,730
Government funds, executive authorities and agencies	96,470	12,284	88,324	1,003
State-owned companies	75,853	55,964	45,248	49,484
Associates	-	-	26	1
Key management personnel	69	7,948	3,738	7,340
<b>Total</b>	<b>214,130</b>	<b>92,153</b>	<b>187,833</b>	<b>86,558</b>

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

b) Collateral received

	<b>Group</b>		<b>Bank</b>	
	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
The Republic of Croatia	8,338,812	5,243,064	8,337,030	5,242,142
State agencies	466,131	590,684	466,131	590,684
<b>Total</b>	<b>8,804,943</b>	<b>5,833,748</b>	<b>8,803,161</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. In 2022, salaries for the Group amounted to HRK 9,519 thousand (31 December 2021: HRK 8,891 thousand), and for the Bank HRK 7,948 thousand (31 December 2021: HRK 7,337 thousand).

Remuneration for the work of the members of the Supervisory Board in 2022 amounted to HRK 103 thousand for the Group (31 December 2021: HRK 85 thousand) and for the Bank HRK 0 thousand (31 December 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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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## **31. 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.

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

#### **Credit risk**

The Bank controls credit risk through its credit policies and prescribed the credit risk management ordinance, which prescribe internal control systems with 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 strived to be achieved. The Bank does not hold deposits of citizens and is therefore not exposed to wide daily fluctuations in liquidity.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

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**31. Risk management (continued)**

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

**Liquidity risk (continued)**

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

**Interest rate risk**

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

**Currency risk**

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

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

**Operational risk**

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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**31. Risk management (continued)**

**31.1. 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 is in charge of monitoring 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 was the impact of a significant 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. In order to ensure business continuity due to the inability to use the main business premises of the Bank damaged in the earthquake, the employees were allowed to continue partly 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 was focused on the priority of the project and the availability of resources for its timely implementation.

**Outsourcing risk**

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

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

The EUR introduction project also had 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.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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### 31. Risk management (continued)

#### 31.2. 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, towards further developing and improving the system in line with the banking regulations and the relevant recommendations and guidelines by taking into account the specific features of HBOR as a development and export bank and a special financial institution.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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**31. Risk management (continued)**

**31.2. 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 Bank's internal acts.

**31.3. Credit risk**

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

The credit risk management system is the crucial part of the Bank's business policy and an important strategic factor of business conduct. Therefore this area is regulated by the Credit Risk Management Policy and the Credit Risk Management Ordinance that are applied on all phases of the credit process (from development of new bank products to loan applications monitoring of client's business operations and final loan repayments).

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

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

- placements up to HRK 300 thousand to companies, crafts businesses and farmers,
- placements up to HRK 300 thousand to start-ups,
- placements from HRK 300 thousand to HRK 1,500 thousand to companies,
- placements from HRK 300 thousand to HRK 1,500 thousand to start-ups,
- placements from HRK 300 thousand to HRK 1,500 thousand to all other entrepreneurs,
- placements from HRK 1,500 thousand to HRK 3,000 thousand to companies and start-ups, and
- placements from HRK 1,500 thousand to HRK 3,000 thousand to all other entrepreneurs.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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**31. Risk management (continued)**

**31.3. Credit risk (continued)**

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

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

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

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

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

Due to the approval of a larger number of loans in a relatively short period of time in 2020, certain activities in the existing manner and procedure of processing loan applications have been reduced that are prescribed by the Credit Risk Management Ordinance and that are covered by separate Instructions having been implemented on COVID-19 loans and loans for the areas struck by the earthquake in the first half of 2022 as well as the clients affected by the crisis caused by direct or indirect impact of the Russian aggression against Ukraine.

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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**31. Risk management (continued)**

**31.3. Credit risk (continued)**

**31.3.1. 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.

**31.3.2. 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, POCI.

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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**31. Risk management (continued)**

**31.3. Credit risk (continued)**

**31.3.2. Impairment assessment (continued)**

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

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

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

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

**31.3.2.1. 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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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**31. Risk management (continued)**

**31.3. Credit risk (continued)**

**31.3.2. Impairment (continued)**

**31.3.2.1. 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 Stage 2.

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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**31. Risk management (continued)**

**31.3. Credit risk (continued)**

**31.3.2. Impairment (continued)**

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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**31. Risk management (continued)**

**31.3. Credit risk (continued)**

**31.3.2. Impairment (continued)**

**31.3.2.3. 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).

**31.3.2.4. Loss given default**

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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**31. Risk management (continued)**

**31.3. Credit risk (continued)**

**31.3.2. Impairment assessment (continued)**

**31.3.2.5. Significant increase in credit risk**

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

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

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

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

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

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

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

- financial institutions,
- central government and local and regional government,
- direct borrowers – large,

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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**31. Risk management (continued)**

**31.3. Credit risk (continued)**

**31.3.2. Impairment assessment (continued)**

**31.3.2.6. Grouping financial assets measured on a collective basis (continued)**

- direct borrowers – small and medium-sized,
- direct borrowers – micro,
- direct borrowers – citizens,
- others.

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

**31.3.3. 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.

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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## 31. Risk management (continued)

### 31.3. Credit risk (continued)

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

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

#### 31.3.4. 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%.

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

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

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

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

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

Evidence on concession includes the following:

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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**31. Risk management (continued)**

**31.3. Credit risk (continued)**

**31.3.6. 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 2022, the highest credit exposure of the Group and the Bank to one debtor equalled HRK 2,314,804 thousand (31 December 2021: HRK 2,102,579 thousand for the Group and the Bank) without considering the effect of mitigation through collateral received.

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

**31.3.7. Risk-Sharing Model**

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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**31. Risk management (continued)**

**31.3. Credit risk (continued)**

**31.3.7. Risk-Sharing Model (continued)**

As part of measures to help the economy due to this crisis, it was possible to approve new liquidity loans to entrepreneurs affected by the crisis caused by direct or indirect impact of the Russian aggression against Ukraine 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.

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

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

Collateral for the Bank's placements are:

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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**31. Risk management (continued)**

**31.3. Credit risk (continued)**

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

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

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

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

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

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

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

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

# Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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## 31. Risk management (continued)

### 31.3. Credit risk (continued)

#### 31.3.8. 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 or liquidity loans under the new WC CRISIS 2022 measure, security is provided through the 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,
- for liquidity loans to entrepreneurs affected by the crisis caused by the Russian aggression against Ukraine, the same instruments have also been accepted as collateral, provided that the collateral covers at least 70% of the loan.

#### **Write-offs**

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.3. Credit risk (continued)**

**Concentration of risk and maximum credit risk exposure**

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

	<b>Highest exposure 31 December 2022 HRK '000</b>	<b>Group Highest exposure 31 December 2021 HRK '000</b>	<b>Highest exposure 31 December 2022 HRK '000</b>	<b>Bank Highest exposure 31 December 2021 HRK '000</b>
<b>Assets</b>				
Cash on hand and current accounts with banks	1,721,919	1,961,985	1,716,519	1,958,619
Deposits with other banks	33,180	7,500	10,596	7,500
Loans to financial institutions	6,984,712	7,050,143	6,984,712	7,050,143
Loans to other customers	17,402,666	15,964,376	17,402,666	15,964,376
Financial assets at fair value through profit or loss	23,870	16,375	23,870	16,375
Financial assets at fair value through other comprehensive income	2,633,447	2,929,514	2,586,297	2,872,688
Other assets	9,718	7,311	3,745	4,699
<b>Total</b>	<b>28,809,512</b>	<b>27,937,204</b>	<b>28,728,405</b>	<b>27,874,400</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	86,470	140,113	86,470	140,113
Issued guarantees in foreign currency	162,516	260,705	162,516	260,705
Open letters of credit in foreign currency	1,243	-	1,243	-
Undrawn loans	2,647,931	3,457,291	2,647,931	3,457,291
<b>Total</b>	<b>2,898,160</b>	<b>3,858,109</b>	<b>2,898,160</b>	<b>3,858,109</b>
<b>Total credit risk exposure</b>	<b>31,707,672</b>	<b>31,795,313</b>	<b>31,626,565</b>	<b>31,732,509</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.3. 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:

<b>Group</b>	<b>Republic of Croatia</b>	<b>EU countries</b>	<b>Other countries</b>	<b>Total</b>
<b>31 December 2022</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
<b>Assets</b>				
Cash on hand and current accounts with banks	1,621,810	85,475	14,634	1,721,919
Deposits with other banks	22,584	10,596	-	33,180
Loans to financial institutions	6,984,712	-	-	6,984,712
Loans to other customers	17,317,730	-	84,936	17,402,666
Financial assets at fair value through profit or loss	23,870	-	-	23,870
Financial assets at fair value through other comprehensive income	2,631,975	1,472	-	2,633,447
Other assets	5,279	1,370	3,069	9,718
<b>Total</b>	<b>28,607,960</b>	<b>98,913</b>	<b>102,639</b>	<b>28,809,512</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	86,470	-	-	86,470
Issued guarantees in foreign currency	162,516	-	-	162,516
Open letters of credit in foreign currency	1,243	-	-	1,243
Undrawn loans	2,647,931	-	-	2,647,931
<b>Total</b>	<b>2,898,160</b>	<b>-</b>	<b>-</b>	<b>2,898,160</b>
<b>Total credit risk exposure</b>	<b>31,506,120</b>	<b>98,913</b>	<b>102,639</b>	<b>31,707,672</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.3. Credit risk (continued)**

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

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

Group	Republic of Croatia	EU countries	Other countries	Total
31 December 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>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.3. Credit risk (continued)**

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

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

<b>Bank</b>				
<b>31 December 2022</b>	<b>Republic of Croatia</b>	<b>EU countries</b>	<b>Other countries</b>	<b>Total</b>
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
<b>Assets</b>				
Cash on hand and current accounts with banks	1,616,410	85,475	14,634	1,716,519
Deposits with other banks	-	10,596	-	10,596
Loans to financial institutions	6,984,712	-	-	6,984,712
Loans to other customers	17,317,730	-	84,936	17,402,666
Financial assets at fair value through profit or loss	23,870	-	-	23,870
Financial assets at fair value through other comprehensive income	2,584,825	1,472	-	2,586,297
Other assets	3,745	-	-	3,745
<b>Total</b>	<b>28,531,292</b>	<b>97,543</b>	<b>99,570</b>	<b>28,728,405</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	86,470	-	-	86,470
Issued guarantees in foreign currency	162,516	-	-	162,516
Open letters of credit in foreign currency	1,243	-	-	1,243
Undrawn loans	2,647,931	-	-	2,647,931
<b>Total</b>	<b>2,898,160</b>	<b>-</b>	<b>-</b>	<b>2,898,160</b>
<b>Total credit risk exposure</b>	<b>31,429,452</b>	<b>97,543</b>	<b>99,570</b>	<b>31,626,565</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
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**31. Risk management (continued)**

**31.3. Credit risk (continued)**

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

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

<b>Bank</b>	<b>Republic of Croatia</b>	<b>EU</b>	<b>Other</b>	<b>Total</b>
<b>31 December 2021</b>	<b>HRK '000</b>	<b>countries</b>	<b>countries</b>	<b>HRK '000</b>
		<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
<b>Assets</b>				
Cash on hand and current accounts with banks	1,877,717	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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.3. Credit risk (continued)**

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

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

Group	Highest exposure	Highest exposure after the effect of mitigation through collateral received	Highest exposure	Highest exposure after the effect of mitigation through collateral received
	31 December 2022	31 December 2022	31 December 2021	31 December 2021
	HRK '000	HRK '000	HRK '000	HRK '000
Financial intermediation and insurance	9,904,362	-	10,805,364	-
Water and electric supply and other infrastructure	2,547,152	1,061,323	1,925,271	973,895
Tourism	3,376,218	236,823	3,648,347	657,484
Transport, warehousing and connections	2,932,463	541,457	2,496,070	481,157
Shipbuilding	1,496,753	42,393	1,481,871	88,546
Agriculture and fishery	589,652	95,161	596,042	164,847
Food industry	857,580	121,117	966,929	192,536
Construction industry	2,702,414	82,968	2,836,586	124,601
Other industry	897,991	206,998	587,645	199,143
Public administration	2,743,933	2,740,753	2,918,243	2,914,897
Education	66,234	63,440	32,142	29,789
Manufacture of basic metals and fabricated metal products, except machinery and equipment	390,908	52,061	281,395	46,890
Manufacture of chemicals and chemical products	50,772	1,949	86,151	22,533
Manufacture of other non-metallic mineral products	250,825	119,955	171,322	126,355
Pharmaceutical industry	538,195	99,847	416,205	379,399
Manufacture of motor vehicles, trailers and semi - trailers	115,047	3,208	266,004	17,411
Manufacture of electrical equipment	120,131	56,688	78,975	24,512
Manufacture of machinery and equipment	150,558	22,494	63,954	16,644
Other	1,976,484	474,935	2,136,797	291,527
<b>Total credit risk exposure</b>	<b>31,707,672</b>	<b>6,023,570</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 year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.3. Credit risk (continued)**

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

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

Bank	Highest exposure	Highest exposure after the effect of mitigation through collateral received	Highest exposure	Highest exposure after the effect of mitigation through collateral received
	31 December 2022 HRK '000	31 December 2022 HRK '000	31 December 2021 HRK '000	31 December 2021 HRK '000
Financial intermediation and insurance	9,871,949	-	10,801,196	-
Water and electric supply and other infrastructure	2,547,152	1,061,323	1,925,271	973,895
Tourism	3,376,218	236,823	3,648,347	657,484
Transport, warehousing and connections	2,932,413	541,407	2,495,987	481,074
Shipbuilding	1,496,753	42,393	1,481,871	88,546
Agriculture and fishery	589,593	95,102	595,896	164,701
Food industry	857,510	121,047	966,803	192,409
Construction industry	2,702,238	82,792	2,836,306	124,321
Other industry	897,496	206,503	587,382	198,880
Public administration	2,698,642	2,695,462	2,863,812	2,860,466
Education	66,234	63,440	32,142	29,789
Manufacture of basic metals and fabricated metal products, except machinery and equipment	390,864	52,017	281,312	46,808
Manufacture of chemicals and chemical products	50,772	1,949	86,151	22,533
Manufacture of other non-metallic mineral products	250,825	119,955	171,322	126,355
Pharmaceutical industry	537,233	98,885	414,615	377,809
Manufacture of motor vehicles, trailers and semi - trailers	115,047	3,208	266,004	17,411
Manufacture of electrical equipment	120,131	56,688	78,975	24,512
Manufacture of machinery and equipment	150,558	22,494	63,954	16,644
Other	1,974,937	473,387	2,135,163	289,893
<b>Total credit risk exposure</b>	<b>31,626,565</b>	<b>5,974,875</b>	<b>31,732,509</b>	<b>6,693,530</b>

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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**31. Risk management (continued)**

**31.3. Credit risk (continued)**

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

The fair value of collateral for the Group in 2022 amounted to HRK 25,684,102 thousand (31 December 2020: HRK 25,043,147 thousand) and for the Bank HRK 25,651,690 thousand (31 December 2021: HRK 25,038,979 thousand).

Net highest exposure as at 31 December 2022 for the Group amounted to HRK 6,023,570 thousand (31 December 2021: HRK 6,752,166 thousand) and for the Bank HRK 5,974,875 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 December 2022, the credit risk of HRK 4,083,428 thousand for the Group (31 December 2021: HRK 4,361,928 thousand) and HRK 4,038,458 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 540,460 thousand (31 December 2021: HRK 478,914 thousand), from local (regional) authorities of HRK 757,542 thousand (31 December 2021: HRK 777,947 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 156,091 thousand (31 December 2021: HRK 180,112 thousand), government funds of HRK 36 thousand (31 December 2021: HRK 12 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 2,629,299 thousand for the Group and HRK 2,584,329 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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

## 31. Risk management (continued)

### 31.3. Credit risk (continued)

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

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

Group 31 December 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	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000	Not subject to IFRS 9 after the effect of mitigation through collateral received HRK '000	Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000
<b>Assets</b>												
Cash on hand and current accounts with banks	1,721,919	-	-	-	-	1,721,919	-	-	-	-	-	-
Deposits with other banks	33,180	-	-	-	-	33,180	-	-	-	-	-	-
Loans to financial institutions	6,706,507	275,864	2,341	-	-	6,984,712	-	-	-	-	-	-
Loans to other customers	13,637,783	1,434,690	1,145,398	1,184,795	-	17,402,666	2,318,955	140,046	104,570	173,746	-	2,737,317
Financial assets at fair value through profit or loss	-	-	-	-	23,870	23,870	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	2,631,479	496	1,472	-	-	2,633,447	2,631,478	496	1,472	-	-	2,633,446
Other assets	8,228	2	1,430	58	-	9,718	2,139	2	1,428	58	-	3,627
<b>Total</b>	<b>24,739,096</b>	<b>1,711,052</b>	<b>1,150,641</b>	<b>1,184,853</b>	<b>23,870</b>	<b>28,809,512</b>	<b>4,952,572</b>	<b>140,544</b>	<b>107,470</b>	<b>173,804</b>	<b>-</b>	<b>5,374,390</b>
<b>Guarantees and commitments</b>												
Guarantees issued in HRK	22,390	2,574	61,506	-	-	86,470	20,517	7	36,831	-	-	57,355
Issued guarantees in foreign currency	97,756	317	64,443	-	-	162,516	96,454	-	30,609	-	-	127,063
Open letters of credit in foreign currency	-	-	-	-	1,243	1,243	-	-	-	-	-	-
Undrawn loans	2,449,837	73,847	-	124,247	-	2,647,931	455,003	9,758	-	-	-	464,761
<b>Total</b>	<b>2,569,983</b>	<b>76,738</b>	<b>125,949</b>	<b>124,247</b>	<b>1,243</b>	<b>2,898,160</b>	<b>571,974</b>	<b>9,765</b>	<b>67,440</b>	<b>-</b>	<b>-</b>	<b>649,179</b>
<b>Total credit risk exposure</b>	<b>27,309,079</b>	<b>1,787,790</b>	<b>1,276,590</b>	<b>1,309,100</b>	<b>25,113</b>	<b>31,707,672</b>	<b>5,524,546</b>	<b>150,309</b>	<b>174,910</b>	<b>173,804</b>	<b>-</b>	<b>6,023,569</b>

# Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

## 31. Risk management (continued)

### 31.3. Credit risk (continued)

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

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

Group 31 December 2021	Net exposure of portfolio - risk Stage 1 HRK '000	Net exposure of portfolio - risk Stage 2 HRK '000	Net exposure of portfolio - risk Stage 3 HRK '000	Net exposure of portfolio of risk POCI HRK '000	Not subject to IFRS 9 HRK '000	Net exposure of total portfolio HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 HRK '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000	Not subject to IFRS 9 after the effect of mitigation through collateral received HRK '000	Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000
<b>Assets</b>												
Cash on hand and current accounts with banks	1,961,985	-	-	-	-	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>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.3. Credit risk (continued)**

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

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

Bank							Net exposure of portfolio after the effect of mitigation through collateral received Stage 1	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3	Net exposure of portfolio after the effect of mitigation through collateral received POCI	Not subject to IFRS 9 after the effect of mitigation through collateral received	Net exposure of total portfolio after the effect of mitigation through collateral received
31 December 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	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>												
Cash on hand and current accounts with banks	1,716,519	-	-	-	-	1,716,519	-	-	-	-	-	-
Deposits with other banks	10,596	-	-	-	-	10,596	-	-	-	-	-	-
Loans to financial institutions	6,706,507	275,864	2,341	-	-	6,984,712	-	-	-	-	-	-
Loans to other customers	13,637,783	1,434,690	1,145,398	1,184,795	-	17,402,666	2,318,955	140,046	104,570	173,746	-	2,737,317
Financial assets at fair value through profit or loss	-	-	-	-	23,870	23,870	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	2,584,329	496	1,472	-	-	2,586,297	2,584,329	496	1,472	-	-	2,586,297
Other assets	2,255	2	1,430	58	-	3,745	594	2	1,428	58	-	2,082
<b>Total</b>	<b>24,657,989</b>	<b>1,711,052</b>	<b>1,150,641</b>	<b>1,184,853</b>	<b>23,870</b>	<b>28,728,405</b>	<b>4,903,878</b>	<b>140,544</b>	<b>107,470</b>	<b>173,804</b>	<b>-</b>	<b>5,325,696</b>
<b>Guarantees and commitments</b>												
Guarantees issued in HRK	22,390	2,574	61,506	-	-	86,470	20,517	7	36,831	-	-	57,355
Issued guarantees in foreign currency	97,756	317	64,443	-	-	162,516	96,454	-	30,609	-	-	127,063
Open letters of credit in foreign currency	-	-	-	-	1,243	1,243	-	-	-	-	-	-
Undrawn loans	2,449,837	73,847	-	124,247	-	2,647,931	455,003	9,758	-	-	-	464,761
<b>Total</b>	<b>2,569,983</b>	<b>76,738</b>	<b>125,949</b>	<b>124,247</b>	<b>1,243</b>	<b>2,898,160</b>	<b>571,974</b>	<b>9,765</b>	<b>67,440</b>	<b>-</b>	<b>-</b>	<b>649,179</b>
<b>Total credit risk exposure</b>	<b>27,227,972</b>	<b>1,787,790</b>	<b>1,276,590</b>	<b>1,309,100</b>	<b>25,113</b>	<b>31,626,565</b>	<b>5,475,852</b>	<b>150,309</b>	<b>174,910</b>	<b>173,804</b>	<b>-</b>	<b>5,974,875</b>

# Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

## 31. Risk management (continued)

### 31.3. 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 December 2021												
	Net exposure of portfolio - risk Stage 1 HRK '000	Net exposure of portfolio - risk Stage 2 HRK '000	Net exposure of portfolio - risk Stage 3 HRK '000	Net exposure of portfolio of risk POCI HRK '000	Not subject to IFRS 9 HRK '000	Net exposure of total portfolio HRK '000						
<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	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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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**31. Risk management (continued)**

**31.3. Credit risk (continued)**

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

As at 31 December 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 1,453,948 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 540,315 thousand, local and regional authorities of HRK 757,542 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 156,091 thousand.

As at 31 December 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 2,629,299 thousand for the Group and HRK 2,584,329 thousand for the Bank.

As at 31 December 2022 other assets of HRK 181 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 year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.3. 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**

<b>31 December 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	1,809	-	-	-	1,809
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	4,250	-	-	-	4,250
Net foreign exchange gain/loss on loss allowances	5	-	-	-	5
<b>Balance at 31 December 2022</b>	<b>6,064</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,064</b>

**Group**

<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	1,652	-	-	-	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 year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.3. Credit risk (continued)**

*i. Allowances (continued)*

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

**Bank**

<b>31 December 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	1,804	-	-	-	1,804
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	4,250	-	-	-	4,250
Net foreign exchange gain/loss on loss allowances	5	-	-	-	5
<b>Balance at 31 December 2022</b>	<b>6,059</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,059</b>

**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	1,643	-	-	-	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 year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.3. Credit risk (continued)**

*i. Allowances (continued)*

**Deposits with other banks**

**Group**

<b>31 December 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 increase of loss allowance	28	-	-	-	28
Net foreign exchange gain/loss on loss allowances	2	-	-	-	2
<b>Balance at 31 December 2022</b>	<b>31</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31</b>

**Group**

<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 year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.3. Credit risk (continued)**

*ii. Allowances (continued)*

**Deposits with other banks**

**Bank**

<b>31 December 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	(2)	-	-	-	(2)
Net foreign exchange gain/loss on loss allowances	2	-	-	-	2
<b>Balance at 31 December 2022</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>

**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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.3. Credit risk (continued)**

*i. Allowances (continued)*

**Loans to financial institutions**

**Group and Bank**

**31 December 2022**

	<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	29,554	23,184	6,162	-	58,900
Transfer to Stage 1	134	(134)	-	-	-
Transfer to Stage 2	(1,916)	1,916	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release)/increase of loss allowance	(1,110)	2,403	613	-	1,906
Unwinding – changes due to the lapse of time	-	-	(5)	-	(5)
Net foreign exchange gain/loss on loss allowances	37	21	3	-	61
<b>Balance at 31 December 2022</b>	<b>26,699</b>	<b>27,390</b>	<b>6,773</b>	<b>-</b>	<b>60,862</b>

**Group and Bank**

**31 December 2021**

	<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	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)
Unwinding – 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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.3. Credit risk (continued)**

*i. Allowances (continued)*

**Loans to other customers**

<b>Group and Bank 31 December 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	381,609	555,807	2,099,064	219,436	3,255,916
Transfer to Stage 1	292,122	(127,637)	(164,485)	-	-
Transfer to Stage 2	(80,150)	83,568	(3,418)	-	-
Transfer to Stage 3	(38)	(253,762)	236,203	17,597	-
Net (release)/increase/of loss allowance	(230,023)	525,969	(40,533)	(125,423)	129,990
Write-offs	-	-	(48,304)	-	(48,304)
Unwinding – changes due to the lapse of time	(10,282)	(994)	6,997	18,138	13,859
Other	-	-	-	93,386	93,386
Net foreign exchange gain/loss on loss allowances	2,993	1,138	6,339	(292)	10,178
<b>Balance at 31 December 2022</b>	<b>356,231</b>	<b>784,089</b>	<b>2,091,863</b>	<b>222,842</b>	<b>3,455,025</b>

<b>Group and Bank 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	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)
Unwinding – 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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.3. Credit risk (continued)**

*i. Allowances (continued)*

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

<b>Group</b>					
<b>31 December 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	2,814	-	1,731	-	4,545
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(42)	42	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release)/increase/of loss allowance	(219)	318	5	-	104
Net foreign exchange gain/loss on loss allowances		-	4	-	4
<b>Balance at 31 December 2022</b>	<b>2,553</b>	<b>360</b>	<b>1,740</b>	<b>-</b>	<b>4,653</b>

<b>Group</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	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 year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.3. Credit risk (continued)**

*i. Allowances (continued)*

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

<b>Bank</b>					
<b>31 December 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	2,724	-	1,731	-	4,455
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(42)	42	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release)/increase of loss allowance	(216)	318	5	-	107
Net foreign exchange gain/loss on loss allowances	-	-	4	-	4
<b>Balance at 31 December 2022</b>	<b>2,466</b>	<b>360</b>	<b>1,740</b>	<b>-</b>	<b>4,566</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	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 year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.3. Credit risk (continued)**

*i. Allowances (continued)*

**Other assets**

<b>Group</b>					
<b>31 December 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	179	4	31,418	250	31,851
Transfer to Stage 1	10	-	(10)	-	-
Transfer to Stage 2	(30)	30	-	-	-
Transfer to Stage 3	-	(100)	100	-	-
Net increase of loss allowance	50	67	3,650	(3)	3,764
Write-offs	(12)	-	(35)	-	(47)
Net foreign exchange gain/loss on loss allowances	-	-	(216)	-	(216)
Other adjustments	(2)	-	(16)	14	(4)
<b>Balance at 31 December 2022</b>	<b>195</b>	<b>1</b>	<b>34,891</b>	<b>261</b>	<b>35,348</b>

<b>Group</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	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 year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.3. Credit risk (continued)**

*i. Allowances (continued)*

**Other assets (continued)**

**Bank**

<b>31 December 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	25	4	31,418	250	31,697
Transfer to Stage 1	10	-	(10)	-	-
Transfer to Stage 2	(30)	30	-	-	-
Transfer to Stage 3	-	(100)	100	-	-
Net increase/(release) of loss allowance	17	67	3,650	(3)	3,731
Write-offs	-	-	(35)	-	(35)
Net foreign exchange gain/loss on loss allowances	-	-	(216)	-	(216)
Other adjustments	-	-	(16)	14	(2)
<b>Balance at 31 December 2022</b>	<b>22</b>	<b>1</b>	<b>34,891</b>	<b>261</b>	<b>35,175</b>

**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	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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.3. Credit risk (continued)**

*i. Allowances (continued)*

**Guarantees and commitments**

**Group and Bank**

<b>31 December 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	10,652	26,256	82,779	9,900	129,587
Transfer to Stage 1	8,226	(8,226)	-	-	-
Transfer to Stage 2	(1,301)	1,301	-	-	-
Transfer to Stage 3	-	(5,558)	5,558	-	-
Net (release) of loss allowance	(7,103)	(1,259)	(34,409)	(5,412)	(48,183)
Net foreign exchange gain/loss on loss allowances	(18)	67	(488)	(239)	(678)
<b>Balance at 31 December 2022</b>	<b>10,456</b>	<b>12,581</b>	<b>53,440</b>	<b>4,249</b>	<b>80,726</b>

**Group and Bank  
31 December 2021**

	<b>Stage 1 HRK '000</b>	<b>Stage 2 HRK '000</b>	<b>Stage 3 HRK '000</b>	<b>POCI HRK '000</b>	<b>Total HRK '000</b>
Balance at 1 January 2021	8,659	11,523	17,525	7,849	45,556
Transfer to Stage 1	5,309	(5,309)	-	-	-
Transfer to Stage 2	(261)	261	-	-	-
Transfer to Stage 3	-	(1)	1	-	-
Net (release)/increase of loss allowance	(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 year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.4. Liquidity risk**

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 31 December 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 December 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	1,721,919	-	-	-	-	1,721,919
Deposits with other banks	-	22,584	-	-	10,596	33,180
Loans to financial institutions*	249,137	198,128	842,943	1,922,672	3,771,832	6,984,712
Loans to other customers	1,455,849	527,169	2,090,509	4,313,104	9,016,035	17,402,666
Financial assets at fair value through profit or loss	108,251	441	-	22,831	-	131,523
Financial assets at fair value through other comprehensive income	2,672,601	13,986	35	-	-	2,686,622
Property, plant and equipment and intangible assets	-	-	-	-	38,831	38,831
Foreclosed assets	-	-	1,968	13,024	9,784	24,776
Other assets	5,798	5,520	5,818	16,279	2,519	35,934
<b>Total assets</b>	<b>6,213,555</b>	<b>767,828</b>	<b>2,941,273</b>	<b>6,287,910</b>	<b>12,849,597</b>	<b>29,060,163</b>
<b>Liabilities</b>						
Deposits from customers	738,963	29,337	110,155	75,433	70,735	1,024,623
Borrowings	555,327	309,534*	3,254,598	5,291,478	7,090,339	16,501,276
Provisions for guarantees, commitments and other liabilities	104,063	2,702	9,975	18,037	7,938	142,715
Other liabilities	477,310	20,726	54,116	91,723	32,648	676,523
<b>Total liabilities</b>	<b>1,875,663</b>	<b>362,299</b>	<b>3,428,844</b>	<b>5,476,671</b>	<b>7,201,660</b>	<b>18,345,137</b>
<b>Liquidity gap</b>	<b>4,337,892</b>	<b>405,529</b>	<b>(487,571)</b>	<b>811,239</b>	<b>5,647,937</b>	<b>10,715,026</b>
<b>Guarantees and commitments</b>						
Guarantees issued in HRK	115,427	-	-	-	-	115,427
Issued guarantees in foreign currency	194,098	-	-	-	-	194,098
Open letters of credit in foreign currency	1,243	-	-	-	-	1,243
Undrawn loans	2,668,118	-	-	-	-	2,668,118
EIF – subscribed, not called up capital	78,358	-	-	-	-	78,358
EIF CROGIP Contracted Liability	-	19,328	57,984	106,244	89,768	273,324
EIF FRC2 Contracted Liability	366	410	1,846	294	121	3,037
<b>Total guarantees and commitments</b>	<b>3,057,610</b>	<b>19,738</b>	<b>59,830</b>	<b>106,538</b>	<b>89,889</b>	<b>3,333,605</b>

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

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

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.4. Liquidity risk (continued)**

Group 31 December 2021	Up to 1 month HRK '000	1 to 3 months HRK '000	3 months to 1 year HRK '000	1 to 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
<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	78,179	-	-	-	-	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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.4. Liquidity risk (continued)**

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 31 December 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:

<b>Bank</b>	<b>Up to 1</b>	<b>1 to 3</b>	<b>3 months to</b>	<b>1 to 3</b>	<b>Over 3</b>	<b>Total</b>
<b>31 December 2022</b>	<b>month</b>	<b>months</b>	<b>1 year</b>	<b>years</b>	<b>years</b>	
	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
<b>Assets</b>						
Cash on hand and current accounts with banks	1,716,519	-	-	-	-	1,716,519
Deposits with other banks	-	-	-	-	10,596	10,596
Loans to financial institutions*	249,137	198,128	842,943	1,922,672	3,771,832	6,984,712
Loans to other customers	1,455,849	527,169	2,090,509	4,313,104	9,016,035	17,402,666
Financial assets at fair value through profit or loss	108,251	441	-	22,831	-	131,523
Financial assets at fair value through other comprehensive income	2,625,545	13,927	-	-	-	2,639,472
Investments in subsidiaries	-	-	-	-	56,124	56,124
Property, plant and equipment and intangible assets	-	-	-	-	37,727	37,727
Foreclosed assets	-	-	1,968	13,024	9,784	24,776
Other assets	4,004	1,073	5,491	16,278	1,346	28,192
<b>Total assets</b>	<b>6,159,305</b>	<b>740,738</b>	<b>2,940,911</b>	<b>6,287,909</b>	<b>12,903,444</b>	<b>29,032,307</b>
<b>Liabilities</b>						
Deposits from customers	738,963	29,337	110,155	75,433	70,735	1,024,623
Borrowings	555,327	309,534*	3,254,598	5,291,478	7,090,339	16,501,276
Provisions for guarantees, commitments and other liabilities	104,063	2,702	9,935	18,037	7,938	142,675
Other liabilities	476,376	12,371	45,479	82,569	36,338	653,133
<b>Total liabilities</b>	<b>1,874,729</b>	<b>353,944</b>	<b>3,420,167</b>	<b>5,467,517</b>	<b>7,205,350</b>	<b>18,321,707</b>
<b>Liquidity gap</b>	<b>4,284,576</b>	<b>386,794</b>	<b>(479,256)</b>	<b>820,392</b>	<b>5,698,094</b>	<b>10,710,600</b>
<b>Guarantees and commitments</b>						
Guarantees issued in HRK	115,427	-	-	-	-	115,427
Issued guarantees in foreign currency	194,098	-	-	-	-	194,098
Open letters of credit in foreign currency	1,243	-	-	-	-	1,243
Undrawn loans	2,668,118	-	-	-	-	2,668,118
EIF – subscribed, not called up capital	78,358	-	-	-	-	78,358
EIF CROGIP Contracted Liability	-	19,328	57,984	106,244	89,768	273,324
EIF FRC2 Contracted Liability	366	410	1,846	294	121	3,037
<b>Total guarantees and commitments</b>	<b>3,057,610</b>	<b>19,738</b>	<b>59,830</b>	<b>106,538</b>	<b>89,889</b>	<b>3,333,605</b>

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

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

Notes to the Financial Statements which include significant accounting policies  
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for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.4. 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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.4. 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):

<b>Group</b>	<b>Up to 1</b>	<b>1 - 3</b>	<b>3 - 12</b>	<b>1 - 3</b>	<b>Over 3</b>	<b>Total</b>
<b>31 December 2022</b>	<b>month</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>years</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	738,963	29,337	110,155	75,433	70,735	1,024,623
Borrowings	566,496	298,689	3,384,456	5,690,177	8,047,955	17,987,773
Provisions for guarantees, commitments and other liabilities	104,063	2,702	9,975	18,037	7,938	142,715
Other liabilities	477,310	20,726	54,116	91,723	32,648	676,523
<b>Total</b>	<b>1,886,832</b>	<b>351,454</b>	<b>3,558,702</b>	<b>5,875,370</b>	<b>8,159,276</b>	<b>19,831,634</b>
<b>Guarantees and commitments</b>						
Guarantees issued in HRK	115,427	-	-	-	-	115,427
Issued guarantees in foreign currency	194,098	-	-	-	-	194,098
Open letters of credit in foreign currency	1,243	-	-	-	-	1,243
Undrawn loans	2,668,118	-	-	-	-	2,668,118
EIF – subscribed, not called up capital	78,358	-	-	-	-	78,358
EIF CROGIP Contracted Liability	-	19,328	57,984	106,244	89,768	273,324
EIF FRC2 Contracted Liability	366	410	1,846	294	121	3,037
<b>Total guarantees and commitments</b>	<b>3,057,610</b>	<b>19,738</b>	<b>59,830</b>	<b>106,538</b>	<b>89,889</b>	<b>3,333,605</b>
<b>Group</b>						
<b>31 December 2021</b>	<b>Up to 1</b>	<b>1 - 3</b>	<b>3 - 12</b>	<b>1 - 3</b>	<b>Over 3</b>	<b>Total</b>
	<b>month</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>years</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	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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.4. 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):

<b>Bank 31 December 2022</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	738,963	29,337	110,155	75,433	70,735	1,024,623
Borrowings	566,496	298,689	3,384,456	5,690,177	8,047,955	17,987,773
Provisions for guarantees, commitments and other liabilities	104,063	2,702	9,935	18,037	7,938	142,675
Other liabilities	476,376	12,371	45,479	82,569	36,338	653,133
<b>Total</b>	<b>1,885,898</b>	<b>343,099</b>	<b>3,550,025</b>	<b>5,866,216</b>	<b>8,162,966</b>	<b>19,808,204</b>
<b>Guarantees and commitments</b>						
Guarantees issued in HRK	115,427	-	-	-	-	115,427
Issued guarantees in foreign currency	194,098	-	-	-	-	194,098
Open letters of credit in foreign	1,243	-	-	-	-	1,243
Undrawn loans	2,668,118	-	-	-	-	2,668,118
EIF – subscribed, not called up capital	78,358	-	-	-	-	78,358
EIF CROGIP Contracted Liability	-	19,328	57,984	106,244	89,768	273,324
EIF FRC2 Contracted Liability	366	410	1,846	294	121	3,037
<b>Total guarantees and commitments</b>	<b>3,057,610</b>	<b>19,738</b>	<b>59,830</b>	<b>106,538</b>	<b>89,889</b>	<b>3,333,605</b>
<b>Bank 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 year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**31. Risk management**

**31.5. Market risk**

Management of market risks at the Bank implies the reduction of interest rate risk and the currency risk to a minimal level.

**31.5.1. Interest rate risk**

The following tables demonstrate the sensitivity of the Group to the interest rate risk as of 31 December 2022 and 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 December 2022 and 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
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>31 December 2022</b>								
<b>Assets</b>								
Cash on hand and current accounts with banks	105,509	-	-	-	-	1,616,410	1,721,919	105,509
Deposits with other banks	-	-	22,574	-	-	10,606	33,180	22,574
Loans to financial institutions	241,456	285,706	824,255	1,881,654	3,744,788	6,853	6,984,712	6,882,039
Loans to other customers	1,312,571	821,349	2,854,156	3,618,634	8,653,431	142,525	17,402,666	16,032,437
Financial assets at fair value through profit or loss	-	-	-	22,831	-	108,692	131,523	22,831
Financial assets at fair value through other comprehensive income	2,619,094	-	-	-	-	67,528	2,686,622	2,619,094
Other assets	-	-	-	-	-	35,934	35,934	-
<b>Total assets</b>	<b>4,278,630</b>	<b>1,107,055</b>	<b>3,700,985</b>	<b>5,523,119</b>	<b>12,398,219</b>	<b>1,988,548</b>	<b>28,996,556</b>	<b>25,684,484</b>
<b>Liabilities</b>								
Deposits from customers	150,690	-	-	-	-	873,933	1,024,623	150,690
Borrowings	555,327	290,734	3,396,753	5,288,877	6,939,483	30,102	16,501,276	16,317,392
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	142,715	142,715	-
Other liabilities	-	-	-	-	-	676,523	676,523	-
<b>Total liabilities</b>	<b>706,017</b>	<b>290,734</b>	<b>3,396,753</b>	<b>5,288,877</b>	<b>6,939,483</b>	<b>1,723,273</b>	<b>18,345,137</b>	<b>16,468,082</b>
<b>Interest rate gap</b>	<b>3,572,613</b>	<b>816,321</b>	<b>304,232</b>	<b>234,242</b>	<b>5,458,736</b>	<b>265,275</b>	<b>10,651,419</b>	<b>9,216,402</b>

Notes to the Financial Statements which include significant accounting policies  
and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.5. Market risk (continued)**

**31.5.1. 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 year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.5. Market risk (continued)**

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

The following tables demonstrate the sensitivity of HBOR to the interest rate risk as of 31 December 2022 and 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 HBOR's interest rate risk exposure as of 31 December 2022 and 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
<b>31 December 2022</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
<b>Assets</b>								
Cash on hand and current								
accounts with banks	100,109	-	-	-	-	1,616,410	1,716,519	100,109
Deposits with other banks	-	-	-	-	-	10,596	10,596	-
Loans to financial institutions	241,456	285,706	824,255	1,881,654	3,744,788	6,853	6,984,712	6,882,039
Loans to other customers	1,312,571	821,349	2,854,156	3,618,634	8,653,431	142,525	17,402,666	16,032,437
Financial assets at fair value through profit or loss	-	-	-	22,831	-	108,692	131,523	22,831
Financial assets at fair value through other comprehensive income	2,572,370	-	-	-	-	67,102	2,639,472	2,572,370
Other assets	-	-	-	-	-	28,192	28,192	-
<b>Total assets</b>	<b>4,226,506</b>	<b>1,107,055</b>	<b>3,678,411</b>	<b>5,523,119</b>	<b>12,398,219</b>	<b>1,980,370</b>	<b>28,913,680</b>	<b>25,609,786</b>
<b>Liabilities</b>								
Deposits from customers	150,690	-	-	-	-	873,933	1,024,623	150,690
Borrowings	555,327	290,734	3,396,753	5,288,877	6,939,483	30,102	16,501,276	16,317,392
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	142,675	142,675	-
Other liabilities	-	-	-	-	-	653,133	653,133	-
<b>Total liabilities</b>	<b>706,017</b>	<b>290,734</b>	<b>3,396,753</b>	<b>5,288,877</b>	<b>6,939,483</b>	<b>1,699,843</b>	<b>18,321,707</b>	<b>16,468,082</b>
<b>Interest rate gap</b>	<b>3,520,489</b>	<b>816,321</b>	<b>281,658</b>	<b>234,242</b>	<b>5,458,736</b>	<b>280,527</b>	<b>10,591,973</b>	<b>9,141,704</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.5. Market risk (continued)**

**31.5.1. 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	6,925,020
Loans to other customers	1,721,753	643,354	1,294,971	3,130,097	8,977,083	197,118	15,964,376	14,941,579
Financial assets at fair value through profit or loss	-	-	-	-	16,375	202,609	218,984	16,375
Financial assets at fair value through other comprehensive income	2,857,247	-	-	-	-	58,457	2,915,704	2,857,247
Other assets	-	-	-	-	-	34,494	34,494	-
<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>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.5. Market risk (continued)**

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

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

	<b>31 December</b>	<b>Group</b>	<b>31 December</b>	<b>Bank</b>
	<b>2022</b>	<b>31 December</b>	<b>2022</b>	<b>31 December</b>
	<b>HRK '000</b>	<b>2021</b>	<b>HRK '000</b>	<b>2021</b>
		<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
<b>Assets</b>				
Fixed interest rate assets	25,684,484	24,880,889	25,609,786	24,821,123
Variable interest rate assets	1,323,524	947,495	1,323,524	947,495
Non-interest bearing	1,988,548	2,384,672	1,980,370	2,381,203
<b>Total</b>	<b>28,996,556</b>	<b>28,213,056</b>	<b>28,913,680</b>	<b>28,149,821</b>
<b>Liabilities</b>				
Fixed interest rate liabilities	16,468,082	16,486,467	16,468,082	16,486,467
Variable interest rate liabilities	153,782	11,276	153,782	11,276
Non-interest bearing	1,723,273	1,203,834	1,699,843	1,184,516
<b>Total liabilities</b>	<b>18,345,137</b>	<b>17,701,577</b>	<b>18,321,707</b>	<b>17,682,259</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.5. Market risk (continued)**

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

**Sensitivity analysis**

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

Volatility of reference interest rates for 2022 has been determined using the standard deviation method on the daily changes of the reference interest rates linked to EUR and USD. On the basis of the above volatility, possible changes in reference interest rates linked to EUR and USD have been established and used in the sensitivity analysis.

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

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

Currency	Increase in b.p. in 2022	Effect on profit in 2022	Increase in b.p. in 2021	Effect on profit in 2021
		HRK '000		HRK '000
EUR	+9	1,057	+6	- <sup>5</sup>
USD	+2	-	+10	174

Currency	Decrease in b.p. in 2022	Effect on profit in 2022	Decrease in b.p. in 2021	Effect on profit in 2021
		HRK '000		HRK '000
EUR	-9	(1,057)	-6	-
USD	-2	-	-10	(174)

<sup>5</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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.5. Market risk (continued)**

**31.5.2. Currency risk**

Total assets and total liabilities as of 31 December 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 2022	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>						
Cash on hand and current accounts with banks	14,662	85,431	29	100,122	1,621,797	1,721,919
Deposits with other banks	-	33,180	-	33,180	-	33,180
Loans to financial institutions	-	3,305,996	-	3,305,996	3,678,716	6,984,712
Loans to other customers	146,813	9,998,144	134,679	10,279,636	7,123,030	17,402,666
Financial assets at fair value through profit or loss	22,831	107,622	-	130,453	1,070	131,523
Financial assets at fair value through other comprehensive income	-	697,965	-	697,965	1,988,657	2,686,622
Property, plant and equipment and intangible assets	-	-	-	-	38,831	38,831
Foreclosed assets	-	-	-	-	24,776	24,776
Other assets	-	8,326	-	8,326	27,608	35,934
<b>Total assets</b>	<b>184,306</b>	<b>14,236,664</b>	<b>134,708</b>	<b>14,555,678</b>	<b>14,504,485*</b>	<b>29,060,163</b>
<b>Liabilities</b>						
Deposits from customers	7,558	272,376	-	279,934	744,689	1,024,623
Borrowings	180,116	13,820,173	-	14,000,289	2,500,987	16,501,276
Provisions for guarantees, commitments and other liabilities	-	25,778	12,091	37,869	104,846	142,715
Other liabilities	223	24,933	54	25,210	651,313	676,523
<b>Total liabilities</b>	<b>187,897</b>	<b>14,143,260</b>	<b>12,145</b>	<b>14,343,302</b>	<b>4,001,835</b>	<b>18,345,137</b>
<b>Currency gap</b>	<b>(3,591)</b>	<b>93,404</b>	<b>122,563</b>	<b>212,376</b>	<b>10,502,650</b>	<b>10,715,026</b>

\*Amounts linked to a one-way currency clause represent HRK 27,641 thousand.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.5. Market risk (continued)**

**31.5.2. Currency risk (continued)**

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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.5. Market risk (continued)**

**31.5.2. Currency risk (continued)**

Total assets and total liabilities as of 31 December 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 December 2022	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>Assets</b>						
Cash on hand and current accounts with banks	14,662	85,418	29	100,109	1,616,410	1,716,519
Deposits with other banks	-	10,596	-	10,596	-	10,596
Loans to financial institutions	-	3,305,996	-	3,305,996	3,678,716	6,984,712
Loans to other customers	146,813	9,998,144	134,679	10,279,636	7,123,030	17,402,666
Financial assets at fair value through profit or loss	22,831	107,622	-	130,453	1,070	131,523
Financial assets at fair value through other comprehensive income	-	674,892	-	674,892	1,964,580	2,639,472
Investments in subsidiaries	-	-	-	-	56,124	56,124
Property, plant and equipment and intangible assets	-	-	-	-	37,727	37,727
Foreclosed assets	-	-	-	-	24,776	24,776
Other assets	-	3,886	-	3,886	24,306	28,192
<b>Total assets</b>	<b>184,306</b>	<b>14,186,554</b>	<b>134,708</b>	<b>14,505,568</b>	<b>14,526,739*</b>	<b>29,032,307</b>
<b>Liabilities</b>						
Deposits from customers	7,558	272,376	-	279,934	744,689	1,024,623
Borrowings	180,116	13,820,173	-	14,000,289	2,500,987	16,501,276
Provisions for guarantees, commitments and other liabilities	-	25,778	12,091	37,869	104,806	142,675
Other liabilities	-	7,325	-	7,325	645,808	653,133
<b>Total liabilities</b>	<b>187,674</b>	<b>14,125,652</b>	<b>12,091</b>	<b>14,325,417</b>	<b>3,996,290</b>	<b>18,321,707</b>
<b>Currency gap</b>	<b>(3,368)</b>	<b>60,902</b>	<b>122,617</b>	<b>180,151</b>	<b>10,530,449</b>	<b>10,710,600</b>

\* Amounts linked to a one-way currency clause represent HRK 27,641 thousand.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

**31. Risk management (continued)**

**31.5. Market risk (continued)**

**31.5.2. Currency risk (continued)**

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
31 December 2021	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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**31. Risk management (continued)**

**31.5. Market risk (continued)**

**31.5.2. Currency risk (continued)**

**Sensitivity analysis**

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

An assumption of reasonably possible fluctuations in EUR exchange rates against HRK was used in the foreign currency risk sensitivity analysis, with the other variables remaining stable, in order to assess the hypothetical effect on HBOR's profit as of 31 December 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 1.19% in the last 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.

	<b>Change in currency rate in 2022 %</b>	<b>Effect on profit in 2022 HRK' 000</b>	<b>Change in currency rate in 2021 %</b>	<b>Effect on profit in 2021 HRK' 000</b>
EUR	+1.19	5,041	+1.49	(11,246)
EUR	-1.19	(5,038)	-1.49	10,779

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

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

The accounting policy on fair value measurements is discussed in Note 4.1.

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

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

Group	31 December 2022		
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
<b>Financial assets at fair value through profit or loss:</b>			
<b>Loans at FVPL:</b>			
Mezzanine loans	-	-	22,831
<b>Investments in investment funds:</b>			
Investments in investment funds at fair value through profit or loss	107,303	-	-
<b>Equity instruments:</b>			
<b>Listed equity instruments:</b>			
Investments in corporate shares	-	-	31
<b>Unlisted equity instruments:</b>			
Investments in corporate shares	-	-	319
Depository receipt - DR	-	-	319
<b>Derivative financial assets-positive fair value</b>			
FX swap	-	1,039	-
<b>Total financial assets at fair value through profit or loss</b>	<b>107,303</b>	<b>1,039</b>	<b>23,181</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	1,333,611	-	-
Corporate bonds	2,179	-	-
Treasury bills of the Ministry of Finance	-	1,281,368	-
Accrued interest	14,321	-	-
<b>Unlisted debt instruments:</b>			
Corporate bonds	-	-	464
Convertible bonds - CB	-	-	1,472
Accrued interest	-	-	32
<b>Total debt instruments</b>	<b>1,350,111</b>	<b>1,281,368</b>	<b>1,968</b>
<b>Unlisted equity instruments:</b>			
Investment in shares of foreign legal entities	-	55	-
Shares of foreign financial institutions – EIF	-	53,120	-
<b>Total equity instruments</b>	<b>-</b>	<b>53,175</b>	<b>-</b>
<b>Total financial assets at fair value through other comprehensive income</b>	<b>1,350,111</b>	<b>1,334,543</b>	<b>1,968</b>

Treasury bills of the Ministry of Finance are presented at level 2 of the fair value hierarchy because the quoted purchase (“bid”) prices on Bloomberg are higher (with a negative purchase yield) compared to the prices simultaneously realised at the primary auction of treasury bills, where treasury bills were issued with positive yields. 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.

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

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

**32.1. 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>			
<b>Loans at FVPL:</b>			
Mezzanine loans	-	-	16,375
<b>Investments in investment funds:</b>			
Investments in investment funds at fair value through profit or loss	202,260	-	-
<b>Equity instruments:</b>			
<b>Listed equity instruments:</b>			
Investments in corporate shares	-	-	-
<b>Unlisted equity instruments:</b>			
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>			
<b>Listed debt instruments:</b>			
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	-	-
<b>Unlisted debt instruments:</b>			
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>
<b>Unlisted equity instruments:</b>			
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 year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

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

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

Bank	31 December 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	-	-	22,831
<b>Investments in investment funds:</b>			
Investments in investment funds at fair value through profit or loss	107,303	-	-
<b>Equity instruments:</b>			
<b>Listed equity instruments:</b>			
Investments in companies' shares			
<b>Unlisted equity instruments:</b>			
Investments in companies' shares	-	-	31
Depository receipt - DR	-	-	319
<b>Derivative financial assets-positive fair value</b>			
FX swap	-	1,039	-
<b>Total financial assets at fair value through profit or loss</b>	<b>107,303</b>	<b>1,039</b>	<b>23,181</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	1,289,066	-	-
Treasury bills of the Ministry of Finance	-	1,281,368	-
Accrued interest	13,895	-	-
<b>Unlisted debt instruments:</b>			
Corporate bonds	-	-	464
Convertible bonds - CB	-	-	1,472
Accrued interest	-	-	32
<b>Total debt instruments</b>	<b>1,302,961</b>	<b>1,281,368</b>	<b>1,968</b>
<b>Unlisted equity instruments:</b>			
Investment in shares of foreign legal entities – SWIFT	-	55	-
Shares of foreign financial institutions – EIF	-	53,120	-
<b>Total equity instruments</b>	<b>-</b>	<b>53,175</b>	<b>-</b>
<b>Total financial assets at fair value through other comprehensive income</b>	<b>1,302,961</b>	<b>1,334,543</b>	<b>1,968</b>

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

for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

Bank

	31 December 2021		
	Level 1	Level 2	Level 3
	HRK '000	HRK '000	HRK '000
<b>Financial assets at fair value through profit or loss:</b>			
<b>Loans at FVPL:</b>			
Mezzanine loans	-	-	16,375
<b>Investments in investment funds:</b>			
Investments in investment funds at fair value through profit or loss	202,260	-	-
<b>Equity instruments:</b>			
<b>Listed equity instruments:</b>			
Investments in companies' shares	-	-	-
<b>Unlisted equity instruments:</b>			
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>			
<b>Listed debt instruments:</b>			
Bonds of the Republic of Croatia	1,304,974	-	-
Treasury bills of the Ministry of Finance	-	1,550,344	-
Accrued interest	15,194	-	-
<b>Unlisted debt instruments:</b>			
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>
<b>Unlisted equity instruments:</b>			
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 year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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

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

**32.1.1. 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:

- the debtor has the right of premature repayment of mezzanine debt to the creditor,
- in the case of realisation of contractually defined indicators of the debtor's performance (debtor's net debt to average EBITDA ratio for the previous three years must be lower than the limit) over the predetermined period, creditor of the mezzanine debt has the right, but not the obligation, to convert a mezzanine debt to a „senior debt“,
- the creditor of the mezzanine debt has the right, but not the obligation, to require from the debtor, to pay the due amount of mezzanine debt into the debtor's equity (increase in equity capital of the debtor by the entry of right-claim)
- the debtor has the option to close the debt through refinancing by another creditor
- if all the possibilities of mezzanine debt closing have not been implemented, the mezzanine debt can be closed from the sale of assets owned by the debtor and
- in case of premature closing of mezzanine debt by repayment, refinancing or converting the mezzanine debt into equity, interest on mezzanine debt is calculated from the date of premature closing of mezzanine debt, i.e. until mezzanine debt exists in such form.

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

On 31 December 2022, the market price of ordinary shares of the debtor that the Bank could subscribe amounted to HRK 22,831 thousand, assuming that the market price of the shares included all market expectations related to future operations of the issuer. Given that the calculation was made on the assumption that the debtor's mezzanine debt had been converted into the debtor's equity on 31 December 2022, there is no need to discount the market value of the debtor's ordinary shares that the Bank could subscribe and in this way of settlement, the estimated fair value of the mezzanine loan on 31 December 2022 amounted to HRK 22,831 thousand, i.e. USD 3,232 thousand at the exchange rate on 31 December 2022.

Based on the Decision in the pre-bankruptcy proceedings, HBOR took over 50% of the debtor's claims as senior debt and 50% of claims as mezzanine debt. Mezzanine debt is stated in the amount of HRK 22,831 thousand.

**b) Corporate bonds that are allocated to Level 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.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

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

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

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

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

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

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.

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

*ii) Sensitivity analysis of corporate bond with the stated potential effect on profit/loss as at 31 December 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 December 2021, the impacts would be as follows:

- a) In the case of a decrease in market yield on no-risk investment (linearly interpolated/extrapolated yield on bonds of the Republic of Croatia of the same duration and the same currency as the respective bond) by 2%, the discount rate would equal 15.35%, the bond price would be 30.88%, which would result in an increase in HBOR's generated profits of HRK 8 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 19.35%, the bond price would be 29.81%, which would result in a decrease in HBOR's generated profits of HRK 8 thousand.

The change in interest rates defined in the "Decision on the Management of Interest Rate Risk in the Bank Book", which is applied when calculating standard interest rate shock, is used as the basis for the change in the market interest rate of 2% compared with the market terms and conditions in effect as at 31 December 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 46 thousand.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

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

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

**32.1.1. 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:

<b>Group and Bank</b>	<b>2022 HRK '000</b>	<b>2021 HRK '000</b>
<b>Balance as at 1 January</b>	<b>16,375</b>	<b>2,658</b>
Increase/decrease in fair value through profit or loss	7,479	(2,328)
Net foreign exchange	1,679	-
Sale of mezzanine loans	(2,702)	-
Other	-	16,045
<b>Balance as of 31 December</b>	<b>22,831</b>	<b>16,375</b>

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

<b>Group and Bank</b>	<b>2022 HRK '000</b>	<b>2021 HRK '000</b>
<b>Balance as at 1 January</b>	<b>2,176</b>	<b>2,262</b>
Decrease in fair value through other comprehensive income	(71)	(22)
Net foreign exchange	7	(14)
Accrued interest	(144)	(50)
<b>Balance as of 31 December</b>	<b>1,968</b>	<b>2,176</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

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

**32.2. Financial instruments not measured at fair value**

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by level in the fair value hierarchy into which each fair value measurement is categorised.

<b>Group 31 December 2022</b>	<b>Level 1 HRK '000</b>	<b>Level 2 HRK '000</b>	<b>Level 3 HRK '000</b>	<b>Total fair values HRK '000</b>	<b>Total carrying amount HRK '000</b>
<b>Assets</b>					
Cash on hand and current accounts with banks	1,721,919	-	-	1,721,919	1,721,919
Deposits with other banks	-	33,180	-	33,180	33,180
Loans to financial institutions	-	-	6,219,749	6,219,749	6,984,712
Loans to other customers	-	-	17,453,789	17,453,789	17,402,666
	<b>1,721,919</b>	<b>33,180</b>	<b>23,673,538</b>	<b>25,428,637</b>	<b>26,142,477</b>
<b>Liabilities</b>					
Deposits from customers	-	1,024,623	-	1,024,623	1,024,623
Borrowings	-	-	14,554,859	14,554,859	16,501,276
	<b>-</b>	<b>1,024,623</b>	<b>14,554,859</b>	<b>15,579,482</b>	<b>17,525,899</b>

<b>Group 31 December 2021</b>	<b>Level 1 HRK '000</b>	<b>Level 2 HRK '000</b>	<b>Level 3 HRK '000</b>	<b>Total fair values HRK '000</b>	<b>Total carrying amount HRK '000</b>
<b>Assets</b>					
Cash on hand and current accounts with banks	1,961,986	-	-	1,961,986	1,961,986
Deposits with other banks	-	7,500	-	7,500	7,500
Loans to financial institutions	-	-	7,073,126	7,073,126	7,050,143
Loans to other customers	-	-	17,912,813	17,912,813	15,964,376
	<b>1,961,986</b>	<b>7,500</b>	<b>24,985,939</b>	<b>26,955,425</b>	<b>24,984,005</b>
<b>Liabilities</b>					
Deposits from customers	-	960,541	-	960,541	960,541
Borrowings	-	-	16,634,493	16,634,493	16,115,237
	<b>-</b>	<b>960,541</b>	<b>16,634,493</b>	<b>17,595,034</b>	<b>17,075,778</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

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

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

<b>Bank</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair values</b>	<b>Total carrying amount</b>
<b>31 December 2022</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
<b>Assets</b>					
Cash on hand and current accounts with banks	1,716,519	-	-	1,716,519	1,716,519
Deposits with other banks	-	10,596	-	10,596	10,596
Loans to financial institutions	-	-	6,219,749	6,219,749	6,984,712
Loans to other customers	-	-	17,453,789	17,453,789	17,402,666
	<b>1,716,519</b>	<b>10,596</b>	<b>23,673,538</b>	<b>25,400,653</b>	<b>26,114,493</b>
<b>Liabilities</b>					
Deposits from customers	-	1,024,623	-	1,024,623	1,024,623
Borrowings	-	-	14,554,859	14,554,859	16,501,276
	<b>-</b>	<b>1,024,623</b>	<b>14,554,859</b>	<b>15,579,482</b>	<b>17,525,899</b>

<b>Bank</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair values</b>	<b>Total carrying amount</b>
<b>31 December 2021</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>	<b>HRK '000</b>
<b>Assets</b>					
Cash on hand and current accounts with banks	1,958,620	-	-	1,958,620	1,958,620
Deposits with other banks	-	7,500	-	7,500	7,500
Loans to financial institutions	-	-	7,073,126	7,073,126	7,050,143
Loans to other customers	-	-	17,912,813	17,912,813	15,964,376
	<b>1,958,620</b>	<b>7,500</b>	<b>24,985,939</b>	<b>26,952,059</b>	<b>24,980,639</b>
<b>Liabilities</b>					
Deposits from customers	-	960,541	-	960,541	960,541
Borrowings	-	-	16,634,493	16,634,493	16,115,237
	<b>-</b>	<b>960,541</b>	<b>16,634,493</b>	<b>17,595,034</b>	<b>17,075,778</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

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**33. 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 year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

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

Jan 1 – Dec 31, 2022	<b>Banking activities HRK '000</b>	<b>Insurance activities HRK '000</b>	<b>Other activities HRK '000</b>	<b>Unallocated HRK '000</b>	<b>Total HRK '000</b>
Net interest income	469,475	1,302	-	-	470,777
Net fee income	19,392	1,860	2,017	-	23,269
Net income/(expenses) from financial operations	16,725	43	-	-	16,768
Impairment gain	-	135	22	-	157
Net premiums earned	-	10,925	-	-	10,925
Other income	14,163	62	303	(288)	14,240
<b>Income from operating activities</b>	<b>519,755</b>	<b>14,327</b>	<b>2,342</b>	<b>(288)</b>	<b>536,136</b>
Operating costs	(189,148)	(7,388)	(1,835)	288	(198,083)
Impairment loss and provisions	(144,434)	-	-	-	(144,434)
Expenses for insured cases	-	(4,327)	-	-	(4,327)
Net change in provisions	-	1,441	-	-	1,441
Other expenses	-	(603)	-	-	(603)
<b>Operating expenses</b>	<b>(333,582)</b>	<b>(10,877)</b>	<b>(1,835)</b>	<b>288</b>	<b>(346,006)</b>
<b>Profit before income tax</b>	<b>186,173</b>	<b>3,450</b>	<b>507</b>	<b>-</b>	<b>190,130</b>
Income tax	-	(672)	-	-	(672)
<b>Profit for the year</b>	<b>186,173</b>	<b>2,778</b>	<b>507</b>	<b>-</b>	<b>189,458</b>
<b>31 December 2022</b>					
Assets of segment	<b>29,032,307</b>	<b>83,316</b>	<b>1,192</b>	<b>(56,652)</b>	<b>29,060,163</b>
<b>Total assets</b>	<b>29,032,307</b>	<b>83,316</b>	<b>1,192</b>	<b>(56,652)</b>	<b>29,060,163</b>
Liabilities of segment	<b>18,321,707</b>	<b>23,286</b>	<b>170</b>	<b>(26)</b>	<b>18,345,137</b>
Total equity	<b>10,710,600</b>	<b>2,112</b>	<b>764</b>	<b>1,550</b>	<b>10,715,026</b>
<b>Total liabilities and total equity</b>	<b>29,032,307</b>	<b>25,398</b>	<b>934</b>	<b>1,524</b>	<b>29,060,163</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 year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

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

Jan 1 – Dec 31, 2021	<b>Banking activities HRK '000</b>	<b>Insurance activities HRK '000</b>	<b>Other activities HRK '000</b>	<b>Unallocated HRK '000</b>	<b>Total HRK '000</b>
Net interest income	491,557	1,254	-	-	492,811
Net fee income	23,448	1,426	1,892	-	26,766
Net income/(expenses) from financial operations	(11,837)	(56)	-	-	(11,893)
Net premiums earned	-	7,980	-	-	7,980
Other income	23,972	86	258	(266)	24,050
<b>Income from operating activities</b>	<b>527,140</b>	<b>10,690</b>	<b>2,150</b>	<b>(266)</b>	<b>539,714</b>
Operating costs	(177,054)	(6,536)	(1,803)	266	(185,127)
Impairment loss and provisions	(163,004)	(18)	9	-	(163,013)
Expenses for insured cases	-	(1,272)	-	-	(1,272)
Net change in provisions	-	(1,549)	-	-	(1,549)
Other expenses	-	(354)	-	-	(354)
<b>Operating expenses</b>	<b>(340,058)</b>	<b>(9,729)</b>	<b>(1,794)</b>	<b>266</b>	<b>(351,315)</b>
<b>Profit before income tax</b>	<b>187,082</b>	<b>961</b>	<b>356</b>	<b>-</b>	<b>188,399</b>
Income tax	-	(179)	(35)	-	(214)
<b>Profit for the year</b>	<b>187,082</b>	<b>782</b>	<b>321</b>	<b>-</b>	<b>188,185</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"

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

### 34. Capital management

The primary objectives of the Bank'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 the regulatory capital as a manageable capital category.

Regulatory capital is the funding source amount that is maintained for the purpose of safe and stable operations, i.e. for the purpose of fulfilling the obligations towards the creditors.

HBOR's regulatory capital is the sum of the equity capital and the supplementary capital.

HBOR ensures that it has at all times an amount of capital adequate to the types, scope and complexity of operations it performs and the risks it is or could be exposed to in its operations.

HBOR's total capital ratio is calculated as the ratio between the regulatory capital and the total:

- 1. amount of credit risk weighted exposure (prescribed by the Methodology for the Calculation of HBOR's Total Capital Ratio), and
- 2. amount of initial capital requirements for market risks, settlement risk and operational risk (prescribed by the Methodology for the Calculation of HBOR's Total Capital Ratio) multiplied by 12.5.

The total capital ratio is calculated on the basis of the internal methodology based on the regulatory framework in accordance with Basel II calculation requirements, on the application of certain provisions of the banking regulations in effect depending on the possibilities of HBOR's system and with further strategic focus on its development in accordance with the banking regulations in effect as applicable to HBOR as a development and export bank of the Republic of Croatia.

Risk appetite relates to the level and type of risk that HBOR is willing to take in order to achieve the goals of its business strategy, and it is always determined within the defined risk bearing capacity that represents the highest level of risk that HBOR can take considering its capital base, its risk management and control ability and regulatory restrictions if prescribed and applicable to HBOR.

Within the framework of defining the risk appetite at the strategic level, a minimum acceptable total capital ratio of 20% was determined.

The text to follow contains a breakdown of capital adequacy ratio as at 31 December 2022 and 31 December 2021.

	31 December 2022 HRK '000	Group 31 December 2021 HRK '000	31 December 2022 HRK '000	Bank 31 December 2021 HRK '000
<b>Total regulatory capital</b>	<b>10,660,761</b>	<b>10,310,733</b>	<b>10,658,048</b>	<b>10,310,068</b>
Credit risk weighted exposure amount	17,098,424	14,243,551	17,082,528	14,237,375
Capital requirements for operating risk	934,316	849,144	909,244	827,476
Capital requirements for currency risk	475,427	749,598	452,800	719,956
<b>Total capital requirements</b>	<b>18,508,167</b>	<b>15,842,293</b>	<b>18,444,572</b>	<b>15,784,807</b>
<b>Capital adequacy ratio</b>	<b>57.60</b>	<b>65.08</b>	<b>57.78</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>2,220,980</b>	<b>1,901,075</b>	<b>2,213,349</b>	<b>1,894,177</b>

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)

(All amounts are expressed in HRK thousand)

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**35. Earnings per share**

Pursuant to the HBOR Act, the equity capital of the Bank consists of one share in the company that may not be divided, transferred or pledged and is owned solely by the Republic of Croatia.  
For the purpose of calculation of earnings per share, earning is presented as net profit after taxation.

**36. Events after the reporting period date**

**36.1. Supervisory Board of HBOR**

After the reporting period, the Government of the Republic of Croatia adopted, at the meeting held on 20 January 2023, a Decision on Dismissal and Appointment of Several Members of the Supervisory Board of the Croatian Bank for Reconstruction and Development, by which the following members of the Supervisory Board were dismissed from their positions: Nataša Tramišak and Ivan Paladina, whereas Šime Erlić, Minister of Regional Development and EU Funds, was appointed ex-officio member of the Supervisory Board of HBOR and Branko Bačić, Deputy Prime Minister and Minister of Physical Planning, Construction and State Assets, was appointed member of the Supervisory Board of HBOR.

Pursuant to the aforementioned, HBOR's Supervisory Board has consisted of the following members as of 20 January 2023:

- Marko Primorac, PhD, associate professor, Minister of Finance - ex officio President of the Supervisory Board,
- Davor Filipović, PhD, associate professor, Minister of the Economy and Sustainable Development – ex officio Deputy President of the Supervisory Board,
- Nikolina Brnjac, PhD, Minister of Tourism and Sports,
- Šime Erlić, Minister of Regional Development and EU Funds,
- Marija Vučković, MSc, Minister of Agriculture,
- Branko Bačić, Deputy Prime Minister of the Republic of Croatia and Minister of Physical Planning, Construction and State Assets,
- Luka Burišević, PhD, 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, PhD, member of Parliament.

**36.2. Supervisory Board and Audit Committee of HKO**

*Supervisory Board*

As at 31 December 2022, the Supervisory Board consisted of the following members:

- Vedran Jakšić, Chairman of the Supervisory Board (until 3 January 2023),
- Andreja Mergeduš, Deputy Chairman of the Supervisory Board,
- Ante Artuković, Member of the Supervisory Board,
- Gordana Kuvek, Member of the Supervisory Board,
- Marija Jerkić, Member of the Supervisory Board.

After the reporting period, by the decision of the Supervisory Board of HKO made at the meeting held on 2 March 2023, Mr Ante Artuković, Executive Director of the Analysis Division of the Croatian Bank for Reconstruction and Development, was elected Chairman of the Supervisory Board of HKO and Mr Marin Pranjić, Executive Director of the Accounting Division of the Croatian Bank for Reconstruction and Development, was elected member of the Supervisory Board.

On 3 February 2023, the Croatian Financial Services Supervisory Agency passed a resolution, by means of which an approval is issued for Marin Pranjić for performing the function of a member of the Supervisory Board of HKO.

Notes to the Financial Statements which include significant accounting policies and other explanations  
for the year ended 31 December 2022 (continued)  
(All amounts are expressed in HRK thousand)

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**36. Events after the reporting period date (continued)**

**36.2. Supervisory Board and Audit Committee of HKO (continued)**

Pursuant to the above, as of 2 March 2023, the Supervisory Board of HKO has consisted of the following members:

- Ante Artuković, Chairman of the Supervisory Board,
- Andreja Mergeduš, Deputy Chairman of the Supervisory Board,
- Marija Jerkić, Member of the Supervisory Board,
- Gordana Kuvek, Member of the Supervisory Board,
- Marin Pranjić, Member of the Supervisory Board.

*Audit Committee*

In 2022, the Audit Committee of HKO consisted of the following members:

- Ante Artuković, Chairman of the Audit Committee,
- Vedran Jakšić, Deputy Chairman of the Audit Committee (until 19 December 2022),
- Andreja Mergeduš, Deputy Chairman of the Audit Committee (from 19 December 2022),
- Andreja Svečnjak, Member of the Audit Committee.

By the decision of the Supervisory Board of HKO made at the meeting held on 2 March 2023, Mr Marin Pranjić, Executive Director of the Accounting Division of the Croatian Bank for Reconstruction and Development, was elected Chairman of the Audit Committee of HKO and Mr Ante Artuković, Executive Director of the Analysis Division of the Croatian Bank for Reconstruction and Development, was elected Deputy Chairman of the Audit Committee.

Pursuant to the above, as of 2 March 2023, the Audit Committee of HKO has consisted of the following members:

- Marin Pranjić, Chairman of the Audit Committee,
- Ante Artuković, Deputy Chairman of the Audit Committee,
- Andreja Svečnjak, Member of the Audit Committee.

**36.3. Introduction of the Euro as the official currency in the Republic of Croatia**

In parallel with the activities of the introduction of the euro at the national level, in early 2021, HBOR began to assess the impact of replacing the kuna with the euro in every aspect of business operations for the purpose of initiating the project of introducing the euro. Special focus was placed on the analysis of all HBOR's business activities with the aim of timely harmonisation with the National Plan for the Changeover from the Croatian Kuna to the Euro, the Act on the Introduction of the Euro as the Official Currency in the Republic of Croatia and the amendments to the primary and secondary legislation in the area of payment system, tax system, capital market, financial system and commercial law.

Under the two-year project of introducing the euro, HBOR complied in a timely manner with the obligations prescribed by the Act on the Introduction of the Euro as the Official Currency in the Republic of Croatia and successfully completed the project of introducing the euro in HBOR.

Appendix - financial performance of the HKO Group  
Statement of Profit or Loss and Other Comprehensive Income  
for the year ended 31 December

(All amounts are expressed in HRK thousand)

	2022 HRK '000	2021 HRK '000
<b>Premium earned</b>		
Gross premium written	19,712	17,613
Premium impairment allowance originated and reserved on collection	(6)	(18)
Gross outward reinsurance premium	(8,277)	(8,046)
<b>Net premium written</b>	<b>11,429</b>	<b>9,549</b>
Changes in the gross unearned premium reserve	(3)	(2,993)
Changes in the gross unearned premium reserve, reinsurer's share	(501)	1,424
<b>Net premium earned</b>	<b>10,925</b>	<b>7,980</b>
Fee and commission income	3,877	3,318
Net investment income	1,339	1,206
Other operating income	76	78
<b>Net income</b>	<b>16,217</b>	<b>12,582</b>
Gross expense for returned premiums	(1,116)	(640)
Reinsurer's share	514	286
Gross reserve for returned premiums	(721)	(606)
Reinsurer's share	264	295
<b>Net expense and reserve for returned premiums</b>	<b>(1,059)</b>	<b>(665)</b>
Claims incurred	(6,323)	(2,290)
Claims incurred, reinsurer's share	1,996	1,018
Change in the claims provision	2,916	(1,004)
Change in the claims provision, reinsurer's share	(1,018)	(234)
<b>Net claims incurred</b>	<b>(2,429)</b>	<b>(2,510)</b>
Marketing and provision expenses	(911)	(453)
Administrative expenses	(8,002)	(7,593)
Other operating expenses	134	(36)
Net exchange differences other than those on financial instruments	7	(8)
<b>Profit before income tax</b>	<b>3,957</b>	<b>1,317</b>
Income tax	(672)	(214)
<b>Profit for the year</b>	<b>3,285</b>	<b>1,103</b>
<b>Other comprehensive income</b>		
<b>Items that are not transferred subsequently to profit or loss:</b>		
<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	1,710	764
Decrease in the fair value of financial assets available for sale	(11,362)	(2,213)
Transfer of realized gains on asset available for sale to profit or loss	-	-
Deferred tax	1,737	262
<b>Total items that may be reclassified subsequently to profit or loss:</b>	<b>(7,915)</b>	<b>(1,187)</b>
<b>Other comprehensive income after income tax</b>	<b>(7,915)</b>	<b>(1,187)</b>
<b>Total comprehensive income after income tax</b>	<b>(4,630)</b>	<b>(84)</b>
<b>Attributable to:</b>		
Equity holder of the parent	(4,630)	(84)

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

Appendix - financial performance of the HKO Group  
Statement of Financial Position  
as of 31 December

(All amounts are expressed in HRK thousand)

	2022 HRK '000	2021 HRK '000
<b>Assets</b>		
<b>Non-current assets</b>		
Property and equipment	533	825
Intangible assets	571	439
Deferred tax assets	1,174	-
<b>Total non-current assets</b>	<b>2,278</b>	<b>1,264</b>
<b>Current assets</b>		
Investments available for sale	47,150	56,826
Deposits with banks	22,584	-
Receivables from insurance operations	5,761	2,361
Other receivables	808	683
Cash and cash equivalents	5,400	3,366
<b>Total current assets</b>	<b>81,703</b>	<b>63,236</b>
<b>Total assets</b>	<b>83,981</b>	<b>64,500</b>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Share capital	57,500	37,500
Retained earnings and reserves	5,044	3,941
Other reserves	(5,277)	2,638
Profit for the year	3,285	1,103
<b>Total equity</b>	<b>60,552</b>	<b>45,182</b>
<b>Technical provisions</b>		
Gross technical provisions	21,669	23,861
Technical provisions, reinsurer's share	(9,062)	(10,317)
	<b>12,607</b>	<b>13,544</b>
<b>Current liabilities</b>		
Liabilities from insurance operations	8,509	2,568
Other liabilities	2,313	3,206
<b>Total liabilities</b>	<b>10,822</b>	<b>5,774</b>
<b>Total equity and liabilities</b>	<b>83,981</b>	<b>64,500</b>

Appendix - financial performance of the HKO Group  
Statement of Cash Flows  
for the year ended 31 December

(All amounts are expressed in HRK thousand)

	2022 HRK '000	2021 HRK '000
<b>Operating activities</b>		
Profit before income tax	3,957	1,317
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>		
Depreciation	353	314
Impairment loss and provisions	(151)	26
Income tax	(201)	(369)
Accrued interest	(10)	19
Other	-	(22)
<i>Operating profit before working capital changes</i>	<i>3,948</i>	<i>1,285</i>
<b>Changes in operating assets and liabilities:</b>		
Net realized (gain)/loss on assets available for sale	(22,604)	-
Decrease of discount in assets available for sale and assets held to maturity	91	91
Premium receivables	(3,405)	118
Net decrease/(increase) in other assets	(159)	(168)
Net decrease of assets and liabilities from insurance operations	5,941	(812)
Net increase in technical provisions	(937)	3,118
Net increase in other liabilities	(577)	383
<b>Net cash provided from operating activities</b>	<b>(17,702)</b>	<b>4,015</b>
<b>Investment activities</b>		
Net purchase of assets available for sale	-	(8,003)
Net sale of assets available for sale	-	2,000
Net purchase of property, plant and equipment and intangible assets	(194)	(661)
<b>Net cash (used in) investment activities</b>	<b>(194)</b>	<b>(6,664)</b>
<b>Financing activities</b>		
Net increase in founder's capital	20,000	-
<b>Net cash provided from financing activities</b>	<b>20,000</b>	<b>-</b>
<b>Effect of foreign currency to cash and cash equivalents</b>		
Net foreign exchange	(71)	56
<b>Net effect</b>	<b>(71)</b>	<b>56</b>
Net increase/(decrease) in cash and cash equivalents	2,033	(2,593)
Balance as of 1 January	3,371	5,964
Net increase/(decrease) in cash	2,033	(2,593)
<b>Balance as of 31 December</b>	<b>5,404</b>	<b>3,371</b>

Appendix - financial performance of the HKO Group  
Statement of Changes in Equity  
for the year ended 31 December

(All amounts are expressed in HRK thousand)

	Share capital HRK '000	Retained earnings and reserves HRK '000	Other reserves HRK '000	Profit/(loss) for the year HRK '000	Total equity attributable to the equity holders of the Company HRK '000	Total equity HRK '000
<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 year	-	-	-	1,103	1,103	1,103
Other comprehensive income	-	-	(1,187)	-	(1,187)	(1,187)
Total comprehensive income	-	-	(1,187)	1,103	(84)	(84)
Transfer of profit 2020 to retained earnings	-	2,192	-	(2,192)	-	-
<b>Balance as of 31 December 2021</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>
Profit for the year	-	-	-	3,285	3,285	3,285
Other comprehensive income	-	-	(7,915)	-	(7,915)	(7,915)
Total comprehensive income	-	-	(7,915)	3,285	(4,630)	(4,630)
Transfer of profit from 2021 to retained earnings	-	1,103	-	(1,103)	-	-
Capital paid-in	20,000	-	-	-	20,000	20,000
<b>Balance as of 31 December 2022</b>	<b>57,500</b>	<b>5,044</b>	<b>(5,277)</b>	<b>3,285</b>	<b>60,552</b>	<b>60,552</b>