

CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Unaudited Condensed Separate and Consolidated Interim Financial Statements for the Period 1 January – 30 June 2023

Zagreb, August 2023

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

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Responsibilities of the Management and Supervisory Boards for the preparation and approval of the condensed separate and consolidated interim financial statements for the period 1 January – 30 June 2023

We confirm that, to the best of our knowledge, the condensed separate interim financial statements of the Croatian Bank for Reconstruction and Development ("the Bank" or "HBOR") and condensed consolidated interim financial statements of the Croatian Bank for Reconstruction and Development Group ("the Group") set out on pages 4 to 123 have been prepared in accordance with International Accounting Standard 34: "Interim Financial Reporting" applicable for the preparation of interim financial statements, and give a true and fair view of assets, liabilities, financial position, financial performance and cash flows for the reporting period.

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

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

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

The Condensed separate and consolidated interim financial statements on pages 4 to 123 have been approved by the Management Board on 24 August 2023 as confirmed by the signatures below.

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


Marin Pranjić

**Finance and Accounting
Division
Executive Director**



Hrvoje Čuvalo, MSc

**President of the Management
Board**



Alan Herjavec, MSc

**Member of the
Management Board**



Josip Pavković

**Member of the
Management Board**

Zagreb, 24 August 2023



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

(All amounts are expressed in thousands of Euros)

	Notes	2023		2022	
		Current period April 1 – June 30 EUR '000	Cumulatively January 1 – June 30 EUR '000	Current period April 1 – June 30 EUR '000	Cumulatively January 1 – June 30 EUR '000
Interest income calculated using the effective interest method	5	23,246	44,320	19,045	43,631
Interest expense	6	(6,574)	(12,350)	(5,202)	(10,539)
Net interest income		16,672	31,970	13,843	33,092
Fee and commission income		1,030	2,749	1,002	1,897
Fee and commission expense		(149)	(390)	(86)	(249)
Net fee and commission income		881	2,359	916	1,648
Net (losses)/gains on financial operations		(5,177)	(2,710)	1,822	2,391
Other income		1,180	2,237	825	1,703
		13,556	33,856	17,406	38,834
Employee expenses	7 a)	(3,957)	(7,652)	(3,475)	(6,865)
Depreciation and amortisation	7 b)	(350)	(694)	(383)	(769)
Other expenses	7 c)	(2,629)	(4,873)	(2,937)	(7,356)
Impairment gains and provisions	8	4,495	9,141	8,222	25,513
Profit before income tax		11,115	29,778	18,833	49,357
Income tax		-	-	-	-
Profit for the period		11,115	29,778	18,833	49,357
Attributable to:					
Owner of the Bank		11,115	29,778	18,833	49,357

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

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

(All amounts are expressed in thousands of Euros)

	2023		2022	
	Current period April 1 – June 30 EUR '000	Cumulatively January 1 – June 30 EUR '000	Current period April 1 – June 30 EUR '000	Cumulatively January 1 – June 30 EUR '000
Profit for the period	11,115	29,778	18,833	49,357
Total comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Net changes in financial assets at fair value through other comprehensive	1,634	266	(2,325)	(6,267)
Net foreign exchange on equity	-	-	(39)	6
Deferred tax – other comprehensive income	-	-	44	135
Total items that may be reclassified subsequently to profit or loss	1,634	266	(2,320)	(6,126)
Other comprehensive (loss) after income tax	1,634	266	(2,320)	(6,126)
Total comprehensive income after income tax	12,749	30,044	16,513	43,231
Income attributable to:				
Owner of the Bank	12,749	30,044	16,513	43,231

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

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

(All amounts are expressed in thousands of Euros)

		30 June 2023	31 December 2022
	Notes	EUR '000	EUR '000
Assets			
Cash on hand and current accounts with banks	9	83,331	228,538
Deposits with other banks	10	72,064	4,404
Loans to financial institutions	11	977,848	927,031
Loans to other customers	12	2,401,376	2,309,731
Financial assets at fair value through profit or loss	13	47,529	17,456
Financial assets at fair value through other comprehensive income	14	311,697	356,576
Property, plant and equipment and intangible assets		4,850	5,153
Foreclosed assets	15	3,335	3,288
Other assets	16	7,381	4,769
Total assets		3,909,411	3,856,946
Liabilities			
Deposits from customers	17	123,868	135,990
Borrowings	18	2,220,393	2,190,096
Provisions for guarantees, commitments and other liabilities	19	22,865	18,941
Other liabilities	20	90,518	89,791
Total liabilities		2,457,644	2,434,818
Equity			
Founder's capital		956,219	956,219
Retained earnings and reserves		468,975	444,073
Other reserves		(4,843)	(4,947)
Profit for the year		29,778	25,145
Guarantee fund		1,638	1,638
Total equity		1,451,767	1,422,128
Total liabilities and total equity		3,909,411	3,856,946

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

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

(All amounts are expressed in thousands of Euros)

	Notes	2023 EUR '000	2022 EUR '000
Operating activities			
Profit before income tax		29,778	49,357
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation and amortisation		694	769
Income tax		-	-
Impairment loss and provisions		(9,141)	(25,513)
Accrued interest		(1,713)	6,215
Deferred fees		(545)	(1,479)
Net gain/(loss) from trading with derivative financial instruments		(96)	235
Other changes in assets at fair value		(23,756)	1,560
<i>Operating profit/(loss) before working capital changes</i>		<i>(4,779)</i>	<i>31,144</i>
<i>Changes in operating assets and liabilities:</i>			
Net (increase)/decrease in deposits with other banks, before impairment		(67,658)	582
Net (increase)/decrease in loans to financial institutions, before impairment		(50,926)	20,445
Net (increase) in loans to other customers, before loss impairment		(83,006)	(10,907)
Net (increase) in foreclosed assets		(47)	(526)
Net (increase) in other assets, before impairment		(2,683)	(408)
Net (decrease) in deposits from banks and companies		(12,148)	(67,974)
Net increase/(decrease) in other liabilities, before provisions		527	(4,419)
Net cash (used in) operating activities		(220,720)	(32,063)
Investment activities			
Purchase of financial assets at fair value through profit or loss		(2,940)	(2,200)
Sale of financial assets at fair value through profit or loss		7	13,583
Purchase of financial assets at fair value through other comprehensive income		(83,290)	(175,303)
Sale of financial assets at fair value through other comprehensive income		127,666	164,447
Net purchase of property, plant and equipment and intangible assets		(319)	(415)
Net cash provided from investment activities		41,124	112
Financing activities			
Increase in founder's capital		-	-
Increase in borrowings – withdrawn funds		221,000	99,147
Decrease in borrowings – repayments of principal		(190,583)	(165,387)
Other		4,108	(1,256)
Net cash provided/(used in) from financing activities		34,525	(67,496)
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		(684)	4,720
Net effect		(684)	4,720
Net (decrease) in cash and cash equivalents		(145,755)	(94,727)
Cash and cash equivalents balance as of 1 January, before impairment		229,343	260,520
Net (decrease) in cash and cash equivalents		(145,755)	(94,727)
Cash and cash equivalents balance as of 30 June before impairment	9	83,588	165,793
Additional note - Operational cash flows			
Interest paid		11,665	11,597
Interest received		36,408	42,388

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

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

(All amounts are expressed in thousands of Euros)

	Founder's capital EUR '000	Retained earnings and reserves EUR '000	Other reserves EUR '000	Profit for the period EUR '000	Guarantee fund EUR '000	Total EUR '000
Balance as of 1 January 2022	953,565	419,097	4,509	24,976	1,634	1,403,781
Profit for the period	-	-	-	49,357	-	49,357
Other comprehensive income	-	-	43,231	-	-	43,231
Total comprehensive income	-	-	43,231	49,357	-	92,588
Net foreign exchange - Guarantee fund	-	-	-	-	13	13
Capital paid-in from the State Budget	-	-	-	-	-	-
Transfer of profit 2021 to retained earnings	-	24,976	-	(24,976)	-	-
Balance as of 30 June 2022	953,565	444,073	47,740	49,357	1,647	1,496,382
Balance as of 1 January 2023	956,219	444,073	(4,947)	25,145	1,638	1,422,128
Profit for the period	-	-	-	29,778	-	29,778
Other comprehensive income	-	-	266	-	-	266
Total comprehensive income	-	-	266	29,778	-	30,044
Capital paid-in from the State Budget	-	-	-	-	-	-
Adjustments	-	42	(162)	(285)	-	(405)
Transfer of profit 2022 to retained earnings	-	24,860	-	(24,860)	-	-
Balance as of 30 June 2023	956,219	468,975	(4,843)	29,778	1,638	1,451,767

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

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

(All amounts are expressed in thousands of Euros)

	Notes	2023		2022	
		Current period April 1 – June 30 EUR '000	Cumulatively January 1 – June 30 EUR '000	Current period April 1 – June 30 EUR '000	Cumulatively January 1 – June 30 EUR '000
Interest income calculated using the effective interest method	5	23,193	44,212	19,004	43,546
Interest expense	6	(6,573)	(12,349)	(5,202)	(10,539)
Net interest income		16,620	31,863	13,802	33,007
Fee and commission income		968	2,601	878	1,647
Fee and commission expense		(149)	(390)	(86)	(249)
Net fee and commission income		819	2,211	792	1,398
Net (losses)/gains on financial operations		(5,177)	(2,710)	1,844	2,384
Other income		551	940	468	1,020
		12,813	32,304	16,906	37,809
Employee expenses	7 a)	(3,819)	(7,384)	(3,314)	(6,545)
Depreciation and amortisation	7 b)	(338)	(671)	(371)	(745)
Other expenses	7 c)	(2,165)	(3,931)	(2,777)	(6,817)
Impairment gains and provisions	8	4,489	9,137	8,219	25,516
Profit before income tax		10,980	29,455	18,663	49,218
Income tax		-	-	-	-
Profit for the period		10,980	29,455	18,663	49,218
Attributable to:					
Owner of the Bank		10,980	29,455	18,663	49,218

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

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

(All amounts are expressed in thousands of Euros)

	2023		2022	
	Current period April 1 – June 30 EUR '000	Cumulatively January 1 – June 30 EUR '000	Current period April 1 – June 30 EUR '000	Cumulatively January 1 – June 30 EUR '000
Profit for the period	10,980	29,455	18,663	49,218
Other comprehensive income				
Items that may be reclassified				
subsequently to profit or loss:				
Net changes in financial assets at fair value				
through other comprehensive income	1,656	331	(2,054)	(5,493)
Net foreign exchange on equity instruments	-	-	(39)	6
Total items that may be reclassified	1,656	331	(2,093)	(5,487)
Other comprehensive (loss) after				
income tax	1,656	331	(2,093)	(5,487)
Total comprehensive income after				
income tax	12,636	29,786	16,570	43,731
Profit attributable to:				
Owner of the Bank	12,636	29,786	16,570	43,731

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

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

(All amounts are expressed in thousands of Euros)

	Notes	30 June 2023 EUR '000	31 December 2022 EUR '000
Assets			
Cash on hand and current accounts with banks	9	82,408	227,821
Deposits with other banks	10	69,970	1,406
Loans to financial institutions	11	977,848	927,031
Loans to other customers	12	2,401,376	2,309,731
Financial assets at fair value through profit or loss	13	47,529	17,456
Financial assets at fair value through other comprehensive income	14	305,512	350,318
Investments in subsidiaries		7,449	7,449
Property, plant and equipment and intangible assets		4,685	5,007
Foreclosed assets	15	3,335	3,288
Other assets	16	6,061	3,742
Total assets		3,906,173	3,853,249
Liabilities			
Deposits from customers	17	123,868	135,990
Borrowings	18	2,220,393	2,190,096
Provisions for guarantees, commitments and other liabilities	19	22,863	18,936
Other liabilities	20	87,722	86,686
Total liabilities		2,454,846	2,431,708
Equity			
Founder's capital		956,219	956,219
Retained earnings and reserves		468,113	443,404
Other reserves		(4,098)	(4,429)
Profit for the year		29,455	24,709
Guarantee fund		1,638	1,638
Total equity		1,451,327	1,421,541
Total liabilities and total equity		3,906,173	3,853,249

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

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

(All amounts are expressed in thousands of Euros)

	Notes	2023 EUR '000	2022 EUR '000
Operating activities			
Profit before income tax		29,455	49,218
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation and amortisation		671	745
Impairment loss and provisions		(9,137)	(25,516)
Accrued interest		(1,697)	6,215
Deferred fees		(545)	(1,479)
Net (loss)/gains from trading with derivative financial instruments		(96)	235
Other changes in assets at fair value		(23,762)	1,554
<i>Operating profit/(loss) before working capital changes</i>		<i>(5,111)</i>	<i>30,972</i>
<i>Changes in operating assets and liabilities:</i>			
Net (increase) in deposits with other banks, before impairment		(68,578)	582
Net (increase)/decrease in loans to financial institutions, before impairment		(50,925)	20,445
Net (increase) in loans to other customers, before impairment		(83,006)	(10,907)
Net (increase) in foreclosed assets		(47)	(526)
Net increase) in other assets, before impairment		(2,208)	(6)
Net decrease in deposits from banks and companies		(12,148)	(67,974)
Net increase/(decrease) in other liabilities, before provisions		1,036	(4,792)
Net cash (used in) operating activities		(220,987)	(32,206)
Investment activities			
Purchase of financial assets at fair value through profit or loss income		(2,940)	(2,200)
Sale of financial assets at fair value through profit or loss		7	13,583
Purchase of financial assets at fair value through other comprehensive income		(83,290)	(175,303)
Sale of financial assets at fair value through other comprehensive income		127,666	164,447
Net purchase of property, plant and equipment and intangible assets		(210)	(407)
Net cash provided from investment activities		41,233	120
Financing activities			
Increase in founder's capital		-	-
Increase in borrowings – withdrawn funds		221,000	99,147
Decrease in borrowings – repayments of principle		(190,583)	(165,387)
Other		4,061	(1,267)
Net cash provided from/(used in) financing activities		34,478	(67,507)
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		(684)	4,728
Net effect		(684)	4,728
Net (decrease) in cash and cash equivalents		(145,960)	(94,865)
Cash and cash equivalents balance as of 1 January, before impairment		228,625	260,073
Net (decrease) in cash and cash equivalents		(145,960)	(94,865)
Cash and cash equivalents balance as at 30 June, before impairment	9	82,665	165,208
Additional note – operating activities			
Interest paid		11,665	11,597
Interest received		36,319	42,300

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

2

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

(All amounts are expressed in thousands of Euros)

	Founder's capital EUR '000	Retained earnings and reserves EUR '000	Other reserves EUR '000	Profit for the period EUR '000	Guarantee fund EUR '000	Total EUR '000
Balance as at 1 January 2022	953,565	418,574	3,977	20,430	1,634	1,398,180
Profit for the period	-	-	-	49,218	-	49,218
Other comprehensive income	-	-	(5,487)	-	-	(5,487)
Total comprehensive income	-	-	(5,487)	49,218	-	43,731
Net foreign exchange - Guarantee fund	-	-	-	-	2	2
Capital paid-in from the State Budget	-	-	-	-	-	-
Transfer of profit 2021 to retained earnings	-	20,430	-	(20,430)	-	-
Balance as at 30 June 2022	953,565	439,004	(1,510)	49,218	1,636	1,441,913
Balance as at 1 January 2023	956,219	443,404	(4,429)	24,709	1,638	1,421,541
Profit for the period	-	-	-	29,455	-	29,455
Other comprehensive income	-	-	331	-	-	331
Total comprehensive income	-	-	331	29,455	-	29,786
Capital paid-in from the State Budget	-	-	-	-	-	-
Transfer of profit 2022 to retained earnings	-	24,709	-	(24,709)	-	-
Balance as at 30 June 2023	956,219	468,113	(4,098)	29,455	1,638	1,451,327

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

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

for the period 1 January – 30 June 2023

(All amounts are expressed in thousands of Euros)

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 30 June 2023, the Group had 414 employees (30 June 2022: 392 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 EUR 929.1 million, the payment schedule of which is determined by the State budget.

Supervisory Board

As of 30 June 2023, 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,
- 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 Burić, 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 30 June 2023, HBOR had 392 employees (30 June 2022: 373 employees).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

1. General information (continued)

1.2. Bank (continued):

Audit Committee

As of 30 June 2023, 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 Štromar, Chairman of the Physical Planning and Construction Committee of the Croatian Parliament, member of the Audit Committee.

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 period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

2. Basis of Preparation of the Financial Statements

2.1. Statement of compliance

The Condensed Interim Financial Statements of the Bank and HBOR Group for the period 1 January to 30 June 2023 have been prepared in accordance with the International Accounting Standard 34 Interim Financial Reporting.

The Condensed Interim Financial Statements for the period from 1 January to 30 June 2023 do not include all information and disclosures that are required in the annual financial statements and should be read in combination with the annual financial statements of the HBOR Group for the year ended 31 December 2022.

2.2. Measurement

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

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

2.3. Functional and presentation currency

These financial statements of the Bank and the Group are presented in Euro (EUR), the Bank's and the Group's functional and presentation currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

The Euro became the functional and presentation currency of HBOR and the HBOR Group on 1 January 2023. In previous years, HBOR's and the Group's financial statements were presented in Croatian kuna (HRK).

Comparative data for previous years were converted from Croatian kunas to Euros using the official conversion rate, which was set at HRK 7.5345 for EUR 1.

3. Use of judgements and estimates

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

4. Summary of significant accounting policies

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

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

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

- 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);
- 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);
- 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).

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

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

In the current reporting period, the following amendments to existing standards are in force, published by the International Accounting Standards Board ("IASB"), the adoption of which the European Union on 30 June 2023 has not yet decided (the effective dates set out below refer to IFRSs issued by the IASB):

- Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules (issued 23 May 2023) (effective immediately and for annual periods beginning on or after 1 January 2023).

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 period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

4. Summary of significant accounting policies (continued)

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

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

IFRS currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards and amendments to existing standards, the adoption of which the European Union on 30 June 2023 has not yet decided (the effective dates set out below refer to IFRSs issued by the IASB):

- Amendments to IAS 1 Presentation of Financial Statements:
 - Classification of Liabilities as Current or Non-current – Deferral of Effective Date; and
 - Non-current liabilities with Covenants)(effective for annual periods beginning on or after 1 January 2024);
- Amendments to IFRS 16 Leases: Lease obligation in case of sale with leaseback (effective for annual periods beginning on or after 1 January 2024);
- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (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 period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

5. Interest income calculated using the effective interest method

Interest income by borrowers:

	Group				Bank			
	2023		2022		2023		2022	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Public sector	5,491	10,498	4,791	9,508	5,448	10,412	4,747	9,421
State-owned companies	2,017	3,834	818	1,647	2,017	3,834	818	1,647
Foreign companies	8	89	105	1,062	8	89	105	1,062
Domestic companies	10,799	20,969	9,655	22,218	10,799	20,969	9,655	22,218
Domestic financial institutions	3,249	6,019	2,825	5,587	3,239	5,997	2,825	5,587
Foreign financial institutions	416	895	17	45	416	895	17	45
Penalty interest	862	1,210	407	2,593	862	1,210	407	2,593
Other	404	806	427	971	404	806	430	973
	23,246	44,320	19,045	43,631	23,193	44,212	19,004	43,546

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Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

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

Interest income by type of facility:

	Group				Bank			
	2023		2022		2023		2022	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Interest on loans								
- financial institutions	3,237	5,909	2,824	5,587	3,237	5,909	2,824	5,587
- other customers	18,359	35,378	15,378	36,352	18,359	35,378	15,378	36,352
	21,596	41,287	18,202	41,939	21,596	41,287	18,202	41,939
Investments in securities	1,220	2,024	827	1,648	1,176	1,937	785	1,562
- Bonds of the Republic of Croatia	943	1,635	815	1,622	901	1,551	773	1,538
- Corporate bonds	4	7	-	7	2	4	-	5
- Treasury bills of the Ministry of Finance	273	382	12	19	273	382	12	19
Deposits	430	1,009	16	44	421	988	17	45
	23,246	44,320	19,045	43,631	23,193	44,212	19,004	43,546

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 20 Other liabilities) and is recognised in profit or loss on a time basis during the repayment of the loan. Interest income earned on this basis for the period 1 January to 30 June 2023 amounts to EUR 5,635 thousand (1 January to 30 June 2022: EUR 3,446 thousand).

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Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

6. Interest expense

Interest expense by type of payee:

	Group				Bank			
	2023		2022		2023		2022	
	Current period	Cumulatively January 1 – June 30	Current period	Cumulatively January 1 – June 30	Current period	Cumulatively January 1 – June 30	Current period	Cumulatively January 1 – June 30
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Domestic financial institutions	4	29	-	-	4	29	-	-
Foreign financial institutions	5,806	10,932	4,745	9,631	5,806	10,932	4,745	9,631
State units	759	1,381	454	904	759	1,381	454	904
Other	5	8	3	4	4	7	3	4
	6,574	12,350	5,202	10,539	6,573	12,349	5,202	10,539

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Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

6. Interest expense (continued)

Interest expense by type of facility:

	Group				Bank			
	2023		2022		2023		2022	
	Current period April 1 – June 30 EUR '000	Cumulatively January 1 – June 30 EUR '000	Current period April 1 – June 30 EUR '000	Cumulatively January 1 – June 30 EUR '000	Current period April 1 – June 30 EUR '000	Cumulatively January 1 – June 30 EUR '000	Current period April 1 – June 30 EUR '000	Cumulatively January 1 – June 30 EUR '000
Borrowings	6,347	12,079	5,174	10,501	6,347	12,079	5,174	10,501
Debt securities	-	-	-	-	-	-	-	-
Deposits	222	263	25	31	222	263	25	31
Leases – interest expenses on long term contracts	5	8	3	4	4	7	3	4
Other	-	-	-	3	-	-	-	3
	6,574	12,350	5,202	10,539	6,573	12,349	5,202	10,539

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

7. Operating expenses

Operating expenses can be shown as follows:

	Group				Bank			
	2023		2022		2023		2022	
	Current period April 1 – June 30 EUR '000	Cumulatively January 1 – June 30 EUR '000	Current period April 1 – June 30 EUR '000	Cumulatively January 1 – June 30 EUR '000	Current period April 1 – June 30 EUR '000	Cumulatively January 1 – June 30 EUR '000	Current period April 1 – June 30 EUR '000	Cumulatively January 1 – June 30 EUR '000
7 a) Employee expenses	3,957	7,652	3,475	6,865	3,819	7,384	3,314	6,545
7 b) Depreciation	350	694	383	769	338	671	371	745
7 c) Other expenses	2,629	4,873	2,937	7,356	2,165	3,931	2,777	6,817
Of which:								
Administration expenses	729	1,243	558	1,214	703	1,196	533	1,179
Material and services	1,281	2,365	1,052	2,059	1,215	2,217	999	1,950
Other expenses	619	1,265	1,327	4,083	247	518	1,245	3,688
	6,936	13,219	6,795	14,990	6,322	11,986	6,462	14,107

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Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

8. Impairment gains and provisions

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

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

	Group				Bank			
	2023		2022		2023		2022	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Impairment losses on cash on hand and due from financial institutions	85	(547)	(17)	(90)	84	(547)	(16)	(89)
Impairment losses on deposits with other banks	(11)	14	-	-	(10)	15	-	-
Impairment losses on loans to financial institutions	(205)	(375)	(562)	(709)	(205)	(375)	(563)	(709)
Impairment losses on loans to other customers and interest	(9,318)	(17,263)	(8,950)	(25,001)	(9,318)	(17,263)	(8,950)	(25,001)
Modification loss/(gain) – financial institutions	(130)	(247)	(105)	(149)	(130)	(247)	(105)	(149)
Modification (gain)/loss – other customers	(753)	(45)	(794)	2,408	(753)	(45)	(794)	2,408
POCI assets – fair value adjustment at initial recognition	1,072	5,602	375	2,105	1,072	5,602	375	2,105
Impairment of financial assets at fair value through other comprehensive income	(30)	(44)	(35)	10	(31)	(45)	(34)	8
Impairment losses on other assets	(1)	(255)	21	301	3	(254)	20	296
Provisions for commitments	2,541	2,579	1,811	(892)	2,541	2,579	1,811	(892)
Provision for guarantees	2,432	1,691	170	(3,305)	2,432	1,691	170	(3,305)
Total	(4,318)	(8,890)	(8,086)	(25,322)	(4,315)	(8,889)	(8,086)	(25,328)

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Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

8. Impairment gains and provisions (continued)

b) Other impairment losses and provisions

	Group				Bank			
	2023		2022		2023		2022	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Provision for other liabilities	(177)	(251)	(136)	(191)	(174)	(248)	(133)	(188)
Total	(177)	(251)	(136)	(191)	(174)	(248)	(133)	(188)
Total	(4,495)	(9,141)	(8,222)	(25,513)	(4,489)	(9,137)	(8,219)	(25,516)

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

9. Cash on hand and current accounts with banks

	30 June 2023 EUR '000	Group 31 December 2022 EUR '000	30 June 2023 EUR '000	Bank 31 December 2022 EUR '000
Account with the Croatian National Bank	279	279	279	279
Accounts with the domestic banks	80,702	215,773	79,778	215,055
Accounts with foreign banks	582	11,341	582	11,341
Foreign currency account – domestic banks	-	-	-	-
Foreign currency account – foreign banks	2,026	1,950	2,026	1,950
	83,589	229,343	82,665	228,625
Loss allowances	(258)	(805)	(257)	(804)
	83,331	228,538	82,408	227,821

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

30 June 2023	Stage 1	Stage 2	Stage 3	Group Total	Stage 1	Stage 2	Stage 3	Bank Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Gross amount	83,589	-	-	83,589	82,665	-	-	82,665
Loss allowances	(258)	-	-	(258)	(257)	-	-	(257)
Balance as of 30 June 2023	83,331	-	-	83,331	82,408	-	-	82,408

31 December 2022	Stage 1	Stage 2	Stage 3	Group Total	Stage 1	Stage 2	Stage 3	Bank Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Gross amount	229,343	-	-	229,343	228,625	-	-	228,625
Loss allowances	(805)	-	-	(805)	(804)	-	-	(804)
Balance as of 31 December 2022	228,538	-	-	228,538	227,821	-	-	227,821

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.

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Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

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

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

	Jan 1 - Jun 30, 2023 EUR '000	Group Jan 1 - Dec 31, 2022 EUR '000	Jan 1 - Jun 30, 2023 EUR '000	Bank Jan 1 - Dec 31, 2022 EUR '000
Balance as of 1 January	805	240	804	239
Net (decrease)/increase of loss allowances on amounts due from banks	(547)	564	(547)	564
<i>Total recognised through Income Statement (Note 8)</i>	(547)	564	(547)	564
Net foreign exchange gain/loss on loss allowances	-	1	-	1
Balance at the end of the reporting period	258	805	257	804

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

10. Deposits with other banks

	30 June 2023	Group 31 December 2022	30 June 2023	Bank 31 December 2022
	EUR '000	EUR '000	EUR '000	EUR '000
Deposits with foreign banks	69,984	1,406	69,984	1,406
Deposits with domestic banks	2,080	3,003	-	-
Accrued interest	19	-	1	-
	72,083	4,409	69,985	1,406
Loss allowances	(19)	(5)	(15)	-
	72,064	4,404	69,970	1,406

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

30 June 2023	Group							Bank
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Gross amount	72,083	-	-	72,083	69,985	-	-	69,985
Loss allowances	(19)	-	-	(19)	(15)	-	-	(15)
Balance as of 30 June 2023	72,064	-	-	72,064	69,970	-	-	69,970

31 December 2022	Group							Bank
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Gross amount	4,409	-	-	4,409	1,406	-	-	1,406
Loss allowances	(5)	-	-	(5)	-	-	-	-
Balance as of 31 December 2022	4,404	-	-	4,404	1,406	-	-	1,406

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

10. Deposits with other banks (continued)

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

	Jan 1 - Jun 30, 2023	Group Jan 1 - Dec 31, 2022	Jan 1 – Jun 30, 2023	Bank Jan 1 - Dec 31, 2022
	EUR '000	EUR '000	EUR '000	EUR '000
Balance as of 1 January	5	-	-	-
Net increase of loss allowances on deposits with other banks	14	5	15	-
<i>Total recognised through Income Statement (Note 8)</i>	14	5	15	-
Balance at the end of the reporting period	19	5	15	-

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

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

11. Loans to financial institutions

	30 June 2023 EUR '000	Group and Bank 31 December 2022 EUR '000
Long-term loans under loan programmes	967,552	920,700
Short-term loans and reverse repo transactions	20,000	15,927
Accrued interest	481	931
Deferred recognition of loan origination fees	(2,487)	(2,449)
	<u>985,546</u>	<u>935,109</u>
Loss allowances	(7,698)	(8,078)
	<u>977,848</u>	<u>927,031</u>

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

30 June 2023	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	Group and Bank Total EUR '000
Gross amount	948,509	35,867	1,170	985,546
Loss allowances	(3,705)	(3,117)	(876)	(7,698)
Balance as of 30 June 2023	<u>944,804</u>	<u>32,750</u>	<u>294</u>	<u>977,848</u>

31 December 2022	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	Group and Bank Total EUR '000
Gross amount	893,650	40,249	1,210	935,109
Loss allowances	(3,544)	(3,635)	(899)	(8,078)
Balance as of 31 December 2022	<u>890,106</u>	<u>36,614</u>	<u>311</u>	<u>927,031</u>

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Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

11. Loans to financial institutions (continued)

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

	Jan 1 - Jun 30, 2023 EUR '000	Group and Bank Jan 1 - Dec 31, 2022 EUR '000
Balance as of 1 January	8,078	7,817
Adjustment of initial balance	(5)	-
Net (decrease)/increase of loss allowances on loans to financial institutions	(375)	253
<i>Total recognised through Income Statement (Note 8)</i>	<i>(375)</i>	<i>253</i>
Net foreign exchange gain/loss on loss allowances	-	9
Unwinding – changes due to the lapse of time	-	(1)
Balance at the end of the reporting period	7,698	8,078

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

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

11. Loans to financial institutions (continued)

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

	30 June 2023 EUR '000	Group and Bank 31 December 2022 EUR '000
EU Projects	41,608	33,555
Financial Restructuring	3,614	3,843
Pre-Export Finance	135	135
Public Sector Investment	129,608	121,119
Private Sector Investment	65,044	34,541
Youth, Female, Start-up Entrepreneurship	11,102	10,317
Working Capital	6,530	2,287
Working Capital – COVID 19 measures and CRISIS 2022	6,031	7,861
Loan programme for reconstruction and development of the economy	83,445	95,665
Export financing	155,699	167,489
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	99,879	107,420
Loan programme for small and medium-sized enterprises	364,555	336,098
Loan programme for war-torn and demolished housing and business facilities	302	370
Other	20,000	15,927
Accrued interest	481	931
Deferred recognition of loan fees	(2,487)	(2,449)
	985,546	935,109
Loss allowances	(7,698)	(8,078)
	977,848	927,031

Average interest rates for total loans to financial institutions are stated at 0.30% (1 January - 30 June 2022: 0.30%) and average interest rates for loans under HBOR loan programmes excluding the liquidity reserve are stated at 0.28% (1 January - 30 June 2022: 0.30%).

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 EUR 20,000 thousand (31 December 2022: EUR 0 thousand). The above placements are collateralized by securities in the amount of EUR 21,325 thousand (31 December 2022: EUR 0 thousand).

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Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

12. Loans to other customers

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

	Group and Bank	
	30 June 2023 EUR '000	31 December 2022 EUR '000
Domestic companies	1,753,374	1,662,237
State-owned companies	221,483	209,108
Public sector	782,788	788,414
Foreign companies	-	12,802
Other	62,023	62,354
Accrued interest	45,915	43,319
Deferred recognition of loan origination fees	(9,279)	(9,942)
	<u>2,856,304</u>	<u>2,768,292</u>
Loss allowances	<u>(454,928)</u>	<u>(458,561)</u>
	2,401,376	2,309,731

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

30 June 2023	Group and Bank				
	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Gross amount	1,940,110	291,726	415,518	208,950	2,856,304
Loss allowances	(46,364)	(103,806)	(274,167)	(30,591)	(454,928)
Balance as of 30 June 2023	1,893,746	187,920	141,351	178,359	2,401,376

31 December 2022	Group and Bank				
	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Gross amount	1,857,325	294,483	429,658	186,826	2,768,292
Loss allowances	(47,280)	(104,067)	(277,638)	(29,576)	(458,561)
Balance as of 31 December 2022	1,810,045	190,416	152,020	157,250	2,309,731

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

12. Loans to other customers (continued)

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

	Jan 1 - Jun 30, 2023 EUR '000	Group and Bank Jan 1 - Dec 31, 2022 EUR '000
Balance as of 1 January	458,561	432,134
Adjustment of initial balance	489	-
Net (decrease)/increase of loss allowances on loans to other customers and interest	(17,263)	17,253
<i>Total recognised through Income Statement (Note 8)</i>	<i>(17,263)</i>	<i>17,253</i>
Net foreign exchange gain/loss on loss allowances	(214)	1,351
Write-offs	(256)	(3,741)
Transfer to off-balance sheet records	-	(2,671)
Unwinding – changes due to the lapse of time	1,874	1,839
Interest transferred from the off-balance sheet records and other	11,737	12,396
Balance at the end of the reporting period	454,928	458,561

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 EUR 256 thousand (31 December 2022: EUR 3,741 thousand) relates mostly to the permanent derecognition from the business records, partial discharge of debt in accordance with the Methodology for the Write-Off of Receivables and discharge of a part of penalty interest.

The transfer to the off-balance sheet records in the amount of EUR 0 thousand was (31 December 2022: EUR 2,671 thousand) performed on the basis of the prescribed criteria in the Methodology for the Write-off of Receivables.

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Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

12. Loans to other customers (continued)

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

	Group and Bank	
	30 June 2023	31 December 2022
	EUR '000	EUR '000
EU Projects	62,844	54,713
Financial Restructuring	154,514	159,754
Pre-Export Finance	5,877	17,796
Public Sector Investment	304,224	284,366
Private Sector Investment	191,847	161,619
Youth, Female, Start-up Entrepreneurship	7,419	6,711
Working Capital	277,743	254,773
Working Capital – COVID 19 measures and CRISIS 2022	456,630	350,297
Loan programme for reconstruction and development of the economy	237,304	245,527
Export financing	438,935	476,747
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	531,995	561,876
Loan programme for small and medium-sized enterprises	109,472	122,507
Other	40,864	38,229
Accrued interest	45,915	43,319
Deferred recognition of loan origination fees	(9,279)	(9,942)
	<u>2,856,304</u>	<u>2,768,292</u>
Loss allowances	(454,928)	(458,561)
	<u>2,401,376</u>	<u>2,309,731</u>

Average interest rates on loans to other customers are stated at 1.82% (1 January – 30 June 2022: 1.97%). Average interest rates reflect the ratio of interest income from generated the mentioned placements and average asset.

Item "Other" refers to reverse repo agreements in the total amount of EUR 4,260 thousand (31 December 2022: EUR 0 thousand). The above placements are collateralized by securities in the amount of EUR 4,569 thousand (31 December 2022: EUR 0 thousand).

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

13. Financial assets at fair value through profit or loss

	Group and Bank	
	30 June	31 December
	2023	2022
	EUR '000	EUR '000
<i>Loans at FVPL:</i>		
Mezzanine loans	30,273	3,030
	30,273	3,030
<i>Investments in investment funds:</i>		
Investments in investment funds at FVPL	17,107	14,242
	17,107	14,242
<i>Unlisted equity instruments:</i>		
Investments in corporate shares	4	4
Depository receipt - DR	42	42
	46	46
Derivative financial assets-positive fair value	103	138
	47,529	17,456

The shares of companies not listed on the stock exchange in the amount of EUR 4 thousand (31 December 2022: EUR 4 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 EUR 42 thousand (31 December 2022: EUR 42 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 30 June 2023, a positive fair value of derivative financial instruments was stated in the amount of EUR 103 thousand (31 December 2022: EUR 138 thousand).

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Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

14. Financial assets at fair value through other comprehensive income

	Group		Bank	
	30 June	31 December	30 June	31 December
	2023	2022	2023	2022
	EUR '000	EUR '000	EUR '000	EUR '000
Debt instruments:				
Listed debt instruments:				
Bonds of the Republic of Croatia	218,116	177,001	212,283	171,089
Corporate bonds	296	289	-	-
Treasury bills of the Ministry of Finance	83,397	170,067	83,397	170,067
Accrued interest	1,869	1,901	1,813	1,844
	303,678	349,258	297,493	343,000
Unlisted debt instruments:				
Corporate bonds	57	62	57	62
Convertible bonds - CB	195	195	195	195
Accrued interest	2	4	2	4
	254	261	254	261
Equity instruments:				
Unlisted equity instruments:				
Investments in shares of foreign legal entities - SWIFT	8	7	8	7
Shares of foreign financial institutions – EIF	7,757	7,050	7,757	7,050
	7,765	7,057	7,765	7,057
	311,697	356,576	305,512	350,318

Non-listed convertible bonds (CB) of the Fortenova Group TopCo B.V. in the amount of EUR 195 thousand (31 December 2022: EUR 195 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 period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

14. 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:

30 June 2023	Stage 1	Stage 2	Stage 3	Group Total	Stage 1	Stage 2	Stage 3	Bank Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Gross amount	303,678	59	195	303,932	297,493	59	195	297,747
Balance as of 30 June 2023	303,678	59	195	303,932	297,493	59	195	297,747

31 December 2022	Stage 1	Stage 2	Stage 3	Group Total	Stage 1	Stage 2	Stage 3	Bank Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Gross amount	349,257	66	195	349,518	343,000	66	195	343,261
Balance as of 31 December 2022	349,257	66	195	349,518	343,000	66	195	343,261

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 summarised as follows:

	Jan 1 – Jun 30, 2023	Group Jan 1 – Dec 31, 2022	Jan 1 – Jun 30, 2023	Bank Jan 1 – Dec 31, 2022
	EUR '000	EUR '000	EUR '000	EUR '000
Balance as of 1 January	618	603	606	591
Net (release)/increase of loss allowances	(44)	14	(45)	14
<i>Total recognised through Income Statement (Note 8)</i>	<i>(44)</i>	<i>14</i>	<i>(45)</i>	<i>14</i>
Net foreign exchange gain/loss on loss allowances	-	1	-	1
Balance at the end of the reporting period	574	618	561	606

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

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

The following text contains investment breakdown:

	Date of issue	Date of maturity	Interest rate (%)	30 June 2023 EUR '000	Group 31 December 2022 EUR '000	30 June 2023 EUR '000	Bank 31 December 2022 EUR '000
Debt instruments:							
Listed debt instruments:							
<i>Bonds of the Republic of Croatia:</i>							
RHMF-O-247E	10.7.2013.	10.7.2024.	5.75	25,708	21,219	25,115	20,604
RHMF-O-267E	15.7.2022.	15.7.2026	2.13	20,267	20,434	20,267	20,434
XS1117298916	11.3.2015.	11.3.2025.	3.0	37,552	37,836	37,552	37,836
XS1843434876	19.6.2019.	19.6.2029.	1.125	1,746	1,696	1,746	1,696
RHMF-O-257A	9.7.2015.	9.7.2025.	4.5	1,132	1,157	-	-
RHMF-O-26CA	14.12.2015.	14.12.2026.	4.25	5,123	5,215	4,057	4,120
RHMF-O-282A	7.2.2017.	7.2.2028.	2.875	1,529	1,525	1,286	1,279
RHMF-O-023BA	27.11.2017.	27.11.2023.	1.75	73,974	73,926	73,974	73,926
RHMF-O-297A	9.7.2018.	9.7.2029.	2.38	375	375	-	-
RHMF-O-34BA	27.11.2019.	27.11.2034.	1.00	1,577	1,577	-	-
RHMF-O-403E	3.3.2020.	3.3.2040.	1.25	847	847	-	-
RHMF-O-253A	3.3.2020.	3.3.2025.	0.25	10,019	9,974	10,019	9,974
RHMF-O-24BA	27.11.2019.	27.11.2024.	0.25	1,220	1,220	1,220	1,220
RHMF-O-253B	8.3.2023.	8.3.2025.	3.65	37,047	-	37,047	-
<i>Corporate bonds:</i>							
JDGL-O-24XA	18.12.2019.	18.12.2024.	1.75	126	106	-	-
HRATGRO25CA5	11.12.2020.	11.12.2025.	0.88	170	183	-	-
Treasury bills up to 182 days			3.071-3.469	17,882	-	17,882	-
Treasury bills up to 364 days			3.33-3.505	65,515	170,067	65,515	170,067
Accrued interest				1,869	1,901	1,813	1,844
				303,678	349,258	297,493	343,000
Unlisted debt instruments:							
<i>Corporate bonds:</i>							
LNGU-O-31AE	24.7.2015.	15.10.2031.	4.5	57	62	57	62
<i>Bonds of foreign corporate:</i>							
Fortenova Group TopCo B.V.	1.4.2019.	1.4.2029.	2.5	195	195	195	195
Accrued interest				2	4	2	4
				254	261	254	261
Equity instruments:							
<i>Unlisted equity instruments:</i>							
Investments in shares of foreign legal entities - SWIFT				8	7	8	7
Investments in shares of foreign financial institutions - EIF				7,757	7,050	7,757	7,050
				7,765	7,057	7,765	7,057
Total				311,697	356,576	305,512	350,318

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

15. Foreclosed assets

	30 June 2023 EUR '000	Group and Bank 31 December 2022 EUR '000
Foreclosed assets, net	3,335	3,288
	3,335	3,288

In the reporting period 2023, acquisition of property took place with present value in the amount of EUR 74 thousand, acquisition value of EUR 74 thousand and provisions of EUR 0 thousand, and relates to buildings (in 2022, acquisition of property took place with present value in the amount of EUR 596 thousand, acquisition value of EUR 596 thousand and provisions of EUR 0 thousand, and relates to land plot in the amount of EUR 31 thousand, acquisition value of EUR 31 thousand and provisions of EUR 0 thousand, and buildings in the amount of EUR 565 thousand, acquisition value of EUR 565 thousand and provisions of EUR 0 thousand).

Fair value of property acquired in 2023 amounted to EUR 74 thousand at the end of the reporting period for 2023.

In the reporting period 2023, sale of foreclosed assets took place with present value in the amount of EUR 27 thousand, acquisition value of EUR 62 thousand and provisions of EUR 35 thousand, and relates to buildings in the amount of EUR 9 thousand and apartments in the amount of EUR 18 thousand (in 2022, sale of foreclosed assets took place with present value in the amount of EUR 32 thousand, acquisition value of EUR 109 thousand and provisions of EUR 77 thousand and relates to land plot in the amount of EUR 11 thousand and apartments in the amount of EUR 21 thousand).

In the reporting period 2023, foreclosed assets was transferred to lease on the item Investments in property in the amount of EUR 144 thousand (2022: EUR 171 thousand), which is presented under Other assets due to immaterial significance.

In the reporting period, this property was depreciated in the amount of EUR 5 thousand (2022: EUR 18 thousand).

The fair value of total foreclosed assets at the beginning of the reporting period stood at EUR 5,590 thousand and the end of the reporting period at EUR 5,622 thousand.

Adjustment increase amount for the Group and the Bank that has an effect on the profit or loss stood at EUR 0 thousand in 2023 (in 2022: EUR 288 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

16. Other assets

	30 June 2023 EUR '000	Group 31 December 2022 EUR '000	30 June 2023 EUR '000	Bank 31 December 2022 EUR '000
Fees receivable	3,565	3,541	3,565	3,541
Other receivables	1,688	1,625	1,688	1,625
Prepaid expenses	478	387	463	334
Accrued income	3,955	2,197	3,955	2,197
Premium receivables	-	474	-	-
Assets related to insurance contracts	1,065	-	-	-
Receivables for reinsurance commissions	-	300	-	-
Receivables for risk assessment fees	51	40	-	-
Deferred tax assets	182	156	-	-
Leased assets	634	506	634	506
Other assets	190	234	174	208
	11,808	9,460	10,479	8,411
Loss allowances	(4,427)	(4,691)	(4,418)	(4,669)
	7,381	4,769	6,061	3,742

Lease assets are recognised in accordance with the application of the IFRS 16 and depreciation during the year stood at EUR 134 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:

30 June 2023	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Group Total EUR '000	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Bank Total EUR '000
Gross amount	1,749	1	4,578	41	6,369	633	1	4,578	41	5,253
Loss allowances	(11)	-	(4,381)	(35)	(4,427)	(2)	-	(4,381)	(35)	(4,418)
Balance as of 30 June 2023	1,738	1	197	6	1,942	631	1	197	6	835

31 December 2022	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Group Total EUR '000	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Bank Total EUR '000
Gross amount	1,116	-	4,821	43	5,980	302	-	4,821	43	5,166
Loss allowances	(25)	-	(4,631)	(35)	(4,691)	(3)	-	(4,631)	(35)	(4,669)
Balance as of 31 December 2022	1,091	-	190	8	1,289	299	-	190	8	497

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

16. Other assets (continued)

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

	30 June 2023 EUR '000	Group 31 December 2022 EUR '000	30 June 2023 EUR '000	Bank 31 December 2022 EUR '000
Fees receivable	3,565	3,541	3,565	3,541
Other receivables	1,688	1,625	1,688	1,625
Premium receivables	-	474	-	-
Assets related to insurance	1,065	-	-	-
Receivables for reinsurance commissions	-	300	-	-
Receivables for risk assessment fees	51	40	-	-
	<u>6,369</u>	<u>5,980</u>	<u>5,253</u>	<u>5,166</u>
Loss allowance	<u>(4,427)</u>	<u>(4,691)</u>	<u>(4,418)</u>	<u>(4,669)</u>
Subtotal – assets exposed to credit risk	1,942	1,289	835	497

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

	Jan 1 - Jun 30, 2023 EUR '000	Group Jan 1 - Dec 31, 2022 EUR '000	Jan 1 - Jun 30, 2023 EUR '000	Bank Jan 1 - Dec 31, 2022 EUR '000
Balance as of 1 January	4,691	4,227	4,669	4,207
Effect of IFRS 9	-	-	-	-
Net (release)/increase of loss allowances on other assets	<u>(255)</u>	<u>500</u>	<u>(254)</u>	<u>496</u>
<i>Total recognised through Income statement (Note 8)</i>	<u>(255)</u>	<u>500</u>	<u>(254)</u>	<u>496</u>
Write-offs	-	(6)	-	(5)
Transfer to off-balance sheet records	-	-	-	(2)
Net foreign exchange gain/loss on loss allowances	-	(29)	-	(29)
Other adjustments	<u>(9)</u>	<u>(1)</u>	<u>3</u>	<u>2</u>
Balance at the end of the reporting period	4,427	4,691	4,418	4,669

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

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

17. Deposits from customers

	30 June 2023 EUR '000	Group and Bank 31 December 2022 EUR '000
Bank deposits and deposits of foreign financial institutions	35,457	20,000
Regular accounts of companies	-	1
Account of the Ministry of Finance of the Republic of Croatia	17,638	9,433
Special purpose accounts of the companies	8,975	6,956
Special accounts of banks	-	160
Special accounts of foreign financial institutions	2	2
State institutions' deposits	48,867	96,760
Other deposits	12,891	2,666
	123,830	135,978
Accrued interest	38	12
	123,868	135,990

Bank deposits in 2022 relate mostly to loro deposits of the Bulgarian Development Bank AD and European Investment Bank (EIB), while in 2023 they refer to loro deposits of Bulgarian Development Bank AD.

The 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 EUR 17,638 thousand (31 December 2022: EUR 9,433 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").

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.

Special accounts of foreign financial institutions relate to the proceeds of ELENA grant, and it relates to the first tranche of 40% of ELENA grant amount upon signing of the Finance Contract in the amount of EUR 839 thousand, reduced by funds used for the intended purpose and account balance on 30 June 2023 amounted to EUR 2 thousand (31 December 2022: EUR 2 thousand).

HBOR does not pay interest on the above deposits.

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

18. Borrowings

	30 June 2023	Group and Bank 31 December 2022
	EUR '000	EUR '000
Balance as of 1 January	2,189,811	2,137,368
New borrowings	221,000	395,666
Repayments	(190,583)	(349,285)
Net foreign exchange gain/loss	(589)	6,062
	<u>2,219,639</u>	<u>2,189,811</u>
Accrued interest	4,385	3,995
Deferred fees	(3,631)	(3,710)
	<u>2,220,393</u>	<u>2,190,096</u>

	30 June 2023	Group and Bank 31 December 2022
	EUR '000	EUR '000
Borrowings from foreign financial institutions	1,851,832	1,858,004
Borrowings from domestic institutions	367,807	331,807
	<u>2,219,639</u>	<u>2,189,811</u>
Accrued interest	4,385	3,995
Deferred recognition of fees	(3,631)	(3,710)
	<u>2,220,393</u>	<u>2,190,096</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, for the most part, relate to 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 period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

19. Provisions for guarantees, commitments and other liabilities

	30 June 2023 EUR '000	Group 31 December 2022 EUR '000	30 June 2023 EUR '000	Bank 31 December 2022 EUR '000
Provisions for guarantees and commitments	14,889	10,714	14,889	10,714
Provisions for other liabilities	7,976	8,227	7,974	8,222
	22,865	18,941	22,863	18,936

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

	Jan 1 - Jun 30, 2023 EUR '000	Group Jan 1 - Dec 31, 2022 EUR '000	Jan 1 - Jun 30, 2023 EUR '000	Bank Jan 1 - Dec 31, 2022 EUR '000
Balance as of 1 January	10,714	17,199	10,714	17,199
Net increase/(release) of loss allowances on guarantees	1,691	(4,478)	1,691	(4,478)
<i>Total recognised through Income Statement (Note 8)</i>	<i>1,691</i>	<i>(4,478)</i>	<i>1,691</i>	<i>(4,478)</i>
Net increase/(release) of loss allowances on commitments	2,579	(1,917)	2,579	(1,917)
<i>Total recognised through Income Statement (Note 8)</i>	<i>2,579</i>	<i>(1,917)</i>	<i>2,579</i>	<i>(1,917)</i>
Net foreign exchange on loss allowances	(95)	(90)	(95)	(90)
Balance at the end of the reporting period - Provisions for guarantees and commitments	14,889	10,714	14,889	10,714
Balance as of 1 January	8,227	8,093	8,222	8,058
Net (release)/increase of loss allowances on other liabilities	(251)	33	(248)	63
<i>Total recognised through Income Statement (Note 8)</i>	<i>(251)</i>	<i>33</i>	<i>(248)</i>	<i>63</i>
Unrealised actuarial gains/(losses)	-	101	-	101
Balance at the end of the reporting period - Provisions for other liabilities	7,976	8,227	7,974	8,222

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

Out of the total provisions for guarantees and commitments, the amount of EUR 289 thousand relates to financial institutions (31 December 2022: EUR 176 thousand), EUR 14,277 thousand relates to domestic companies (31 December 2022: EUR 10,318 thousand), EUR 37 thousand relates to the public sector (31 December 2022: EUR 6 thousand), EUR 151 thousand relates to non-profit institutions (31 December 2022: EUR 151 thousand), EUR 51 thousand relates to state-owned companies (31 December 2022: EUR 0 thousand) and EUR 84 thousand relates to other (31 December 2022: EUR 63 thousand).

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

20. Other liabilities

	30 June 2023 EUR '000	Group 31 December 2022 EUR '000	30 June 2023 EUR '000	Bank 31 December 2022 EUR '000
Liabilities in respect of subsidized interest (a)	48,631	59,498	48,631	59,498
Deferred recognition of interest income (b)	35,582	23,306	35,582	23,306
Accrued salaries	1,299	1,167	1,261	1,132
Liabilities to suppliers	323	150	296	135
Liabilities for prepaid receivables	857	1,185	857	1,185
Liabilities under insurance contract	2,624	-	-	-
Deferrable premium	-	760	-	-
Provisions for claims	-	655	-	-
Provisions for return premiums	-	254	-	-
Liabilities to re-insurers	-	1,108	-	-
Deferred tax liabilities	33	41	-	-
Corporate income tax-current liability	-	2	-	-
Lease liabilities	611	537	599	513
Other liabilities	558	1,128	496	917
	90,518	89,791	87,722	86,686

(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:

- EUR 25,561 thousand in respect of the Programme of Preferential Financing through HBOR's Loan Programmes (31 December 2022: EUR 41,539 thousand),
- EUR 2 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 2022: EUR 1 thousand),
- Financial instrument of the Interest Subsidy Fund for loans to micro, small and medium-sized business entities in the amount of EUR 6,757 thousand (31 December 2022: EUR 5,640 thousand),
- Financial instrument of the Interest Subsidy Fund for loans to mid-cap entities and large business entities in the amount of EUR 8,253 thousand (31 December 2022: EUR 6,159 thousand),
- Financial instrument of the Interest Subsidy Fund for loans to public sector entities in the amount of EUR 8,058 thousand (31 December 2022: EUR 6,159 thousand).

(b) Deferred recognition of interest income of EUR 35,582 thousand (31 December 2022: EUR 23,306 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 EUR 11,616 thousand (31 December 2022: EUR 5,945 thousand), and in respect of those already in repayment stage amounting to EUR 23,966 thousand (31 December 2022: EUR 17,352 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

21. Guarantees and commitments

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

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

Group and Bank

	30 June 2023 EUR '000	31 December 2022 EUR '000
Guarantees issued	40,339	36,008
Guarantees issued in foreign currency	6,923	5,073
Undrawn loans	452,920	354,120
Open letters of credit in foreign currency	68	165
EIF – subscribed, not called up capital	10,400	10,400
EIF CROGIP Contracted Liability	33,460	36,276
EIF FRC2 Contracted Liability	302	403
	<u>544,412</u>	<u>442,445</u>
Provisions for guarantees and commitments	<u>(14,889)</u>	<u>(10,714)</u>
	529,523	431,731

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

30 June 2023	Group and Bank					
	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Without stage EUR '000	Total EUR '000
Gross amount	457,189	9,973	29,049	3,971	68	500,250
Loss allowances	(4,589)	(1,430)	(8,692)	(178)	-	(14,889)
Balance as of 30 June 2023	452,600	8,543	20,357	3,793	68	485,361

31 December 2022	Group and Bank					
	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Without stage EUR '000	Total EUR '000
Gross amount	342,483	11,855	23,808	17,055	165	395,366
Loss allowances	(1,387)	(1,670)	(7,093)	(564)	-	(10,714)
Balance as of 31 December 2022	341,096	10,185	16,715	16,491	165	384,652

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

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

21. Guarantees and commitments (continued)

Guarantees

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

Bank guarantees are, to the extent of 7%, collateralized by the guarantees, deposits and bank guarantees.

Commitments upon undrawn loans

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

22. Related-party transactions

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

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

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

As of 30 June 2023 and 31 December 2022 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
	30 June 2023	30 June 2023	31 December 2022	31 December 2022
	EUR '000	EUR '000	EUR '000	EUR '000
Owner	363,713	428,552	414,604	466,075
Government funds, executive authorities and agencies	680,441	18,438	644,723	31,426
State-owned companies	215,718	1,582	218,416	792
Key management personnel	291	356	304	368
Total	1,260,163	448,928	1,278,047	498,661

Group	Income	Expense	Income	Expense
	Jan 1 – Jun 30 2023	Jan 1 – Jun 30 2023	Jan 1 – Jun 30 2022	Jan 1 – Jun 30 2022
	EUR '000	EUR '000	EUR '000	EUR '000
Owner	3,616	1,273	3,052	1,031
Government funds, executive authorities and agencies	7,857	114	6,310	1,600
State-owned companies	4,902	1,788	2,761	449
Key management personnel	5	790	5	571
Total	16,380	3,965	12,128	3,651

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

22. Related-party transactions (continued)

a) Related-party transactions (continued)

Bank	Assets	Liabilities	Assets	Liabilities
	30 June 2023	30 June 2023	31 December 2022	31 December 2022
	EUR '000	EUR '000	EUR '000	EUR '000
Owner	363,713	428,552	414,604	466,075
Government funds, executive authorities and agencies	674,249	18,425	638,751	31,414
State-owned companies	215,718	1,581	218,416	792
Subsidiary companies	7,449	-	7,449	-
Key management personnel	291	337	304	351
Total	1,261,420	448,895	1,279,524	498,632

Bank	Income	Expense	Income	Expense
	Jan 1 – Jun 30 2023	Jan 1 – Jun 30 2023	Jan 1 – Jun 30 2022	Jan 1 – Jun 30 2022
	EUR '000	EUR '000	EUR '000	EUR '000
Owner	3,616	1,273	3,052	1,031
Government funds, executive authorities and agencies	7,519	103	6,226	1,597
State-owned companies	4,902	1,783	2,761	444
Key management personnel	5	666	5	510
Total	16,042	3,825	12,044	3,582

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

22. Related-party transactions (continued)

b) Collateral received

	Group		Bank	
	30 June 2023	31 December 2022	30 June 2023	31 December 2022
	EUR '000	EUR '000	EUR '000	EUR '000
The Republic of Croatia	1,167,097	1,106,751	1,166,883	1,106,514
State agencies	76,337	61,866	76,337	61,866
Total	1,243,434	1,168,617	1,243,220	1,168,380

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

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

c) Salaries of key management personnel

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

Salaries include compensation paid for regular work, annual vacation, national holidays, paid leave, sick leave, benefits payable for past service and payments under contractual agreements. Salaries for the Group in the reporting period amounted to EUR 777 thousand (1 January to 30 June 2022: EUR 568 thousand), and for the Bank EUR 666 thousand (1 January to 30 June 2022: EUR 510 thousand).

Remuneration for the work of the members of the Supervisory Board in 2023 amounted to EUR 13 thousand for the Group (1 January to 30 June 2022: EUR 3 thousand) and for the Bank EUR 0 thousand (1 January to 30 June 2022: EUR 0 thousand) and it relates to the members of supervisory boards at associates and subsidiaries who were appointed by HBOR.

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management

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

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

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

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

23.1. Overview of the most important risks

Credit risk

The Bank controls credit risk through its credit policy 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 Euro 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.

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.

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23. Risk management (continued)

23.1. Overview of the most important risks (continued)

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. The BPV (basis point value) and the economic value of the bank's book are calculated, and projections of developments in average weighted interest rates on 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.

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 2023, no operational risk events were identified that would significantly affect HBOR's exposure to operational risk. An event from the previous period (earthquake in Zagreb in 2020, which damaged HBOR's main office building) will have an impact in 2023 because preparatory works for the reconstruction of the building have started, and the effects of that event have been continuously recorded in the operational risk event database.

23. Risk management (continued)

23.1. Overview of the most important risks (continued)

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.

In 2023, the activities of updating of internal documents and of framework for outsourcing risk management began with the help of an external consultant, and the completion is planned for the end of the year.

23.2. Strategy and risk management systems

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

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

Risk management committees

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

23. Risk management (continued)

23.2. Strategy and risk management systems (continued)

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.

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, economic value of the Bank's book, projections of average weighted interest rates on 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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. 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 EUR 400 thousand) or the Credit Scoring Methodology (for gross exposures below EUR 400 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 EUR 40 thousand to companies, crafts businesses and farmers,
- placements up to EUR 40 thousand to start-ups,
- placements from EUR 40 thousand to EUR 200 thousand to companies,
- placements from EUR 40 thousand to EUR 200 thousand to start-ups,
- placements from EUR 40 thousand to EUR 200 thousand to all other entrepreneurs,
- placements from EUR 200 thousand to EUR 400 thousand to companies and start-ups, and
- placements from EUR 200 thousand to EUR 400 thousand to all other entrepreneurs.

The Credit Rating Assessment Methodology is used for the assessment of the risk of the clients that have been classified to the portfolio of individually significant clients, i.e. gross exposures exceeding EUR 400 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, and 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 minimise 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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

Ordinances for the granting of working capital loans to clients in earthquake-ravaged areas and to clients affected by the crisis caused by the direct or indirect effects of the Russian aggression against Ukraine have been prescribed with an objective of enabling faster processing of loan applications and making working capital more accessible to this group of clients.

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.

23.3.1. Risk related to loan commitments

Bank clients can issue guarantees and letters of credit (coverage also possible from loan proceeds) in accordance with the same procedure as prescribed for loan commitments to direct clients.

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

23.3.2. Impairment assessment

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

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

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

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.2. Impairment assessment (continued)

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

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

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

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

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

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

23.3.2.1. Definition of default status and exit from default status

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

- it is considered probable that client will not settle its obligations towards HBOR entirely without taking into account the possibility of collection through collateral activation,
- client is more than 90 days overdue in settling its due obligation under any significant loan liability.

The materiality threshold is EUR 100 for citizens, and EUR 500 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
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(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.2. Impairment assessment (continued)

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

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

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

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

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

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

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

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

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

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

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

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.2. Impairment assessment (continued)

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

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 period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.2. Impairment assessment (continued)

23.3.2.3. Exposure at default

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

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

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

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

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

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

23.3.2.4. Loss given default

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

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

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

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.2. Impairment assessment (continued)

23.3.2.5. Significant increase in credit risk

For the purpose of identifying an increased credit risk, changes for all clients of the Bank are monitored continuously, but at least once a year. All placements to the client, where an increased credit risk has been identified or in case of individually significant clients, whose exposure exceeds EUR 400 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.

23.3.2.6. 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 EUR 400 thousand.

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23 Risk management (continued)

23.3. Credit risk (continued)

23.3.2. Impairment assessment (continued)

23.3.2.6. Grouping financial assets measured on a collective basis (continued)

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.

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

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

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

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

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

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

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

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

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

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

23.3.5. Overview of modified and restructured loans

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

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

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

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

Evidence on concession includes the following:

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

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

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 30 June 2023, the highest credit exposure of the Group and for the Bank to one debtor EUR 277,843 thousand (31 December 2022: EUR 307,227 thousand), 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.

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Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.7. Risk-Sharing Model

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

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

As part of measures to help the economy due to 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 EUR 400 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 obtains necessary information from commercial banks.

23.3.8. Collateral and other credit enhancements (creditworthiness)

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 (LRGUs), guarantees from HAMAG-BICRO, loan insurance policy and when the Republic of Croatia, LRGUs or other government authorities guarantee for clients implicitly.

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

23.3.8. 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 period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

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

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

In case of the real estate, the necessary ratio of placement and estimated market value of the real estate should be 1:1.3, except in case of investments on the islands, supported areas where such ratio is 1:1.2. In case of moveable property, the necessary ratio of placement and estimated market value of moveable property should be 1:2. If a lower ratio of the collateral value than those prescribed is proposed, reasons and justifications of deviations from the prescribed ratio are explained. For direct financing of entrepreneurs' liquidity through COVID-19 loans or loans for earthquake-affected areas of Sisak-Moslavina County, security is provided through the coverage of loans by collateral of at least 70%, while for liquidity loans under the new WC CRISIS 2022 measure, security is provided through the coverage of loans by collateral of at least 50%.

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 period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure

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

	Group		Bank	
	Highest exposure 30 June 2023 EUR '000	Highest exposure 31 December 2022 EUR '000	Highest exposure 30 June 2023 EUR '000	Highest exposure 31 December 2022 EUR '000
Assets				
Cash on hand and current accounts with banks	83,331	228,538	82,408	227,821
Deposits with other banks	72,064	4,404	69,970	1,406
Loans to financial institutions	977,848	927,031	977,848	927,031
Loans to other customers	2,401,376	2,309,731	2,401,376	2,309,731
Financial assets at fair value through profit or loss	30,376	3,168	30,376	3,168
Financial assets at fair value through other comprehensive income	303,932	349,518	297,747	343,261
Other assets	1,942	1,289	835	497
Total	3,870,869	3,823,679	3,860,560	3,812,915
Guarantees and commitments				
Issued guarantees	32,779	29,487	32,779	29,487
Issued guarantees in foreign currency	4,852	3,559	4,852	3,559
Open letters of credit in foreign currency	68	165	68	165
Undrawn loans	447,662	351,441	447,662	351,441
Total	485,361	384,652	485,361	384,652
Total credit risk exposure	4,356,230	4,208,331	4,345,921	4,197,567

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Group				
30 June 2023	Republic of Croatia EUR '000	EU countries EUR '000	Other countries EUR '000	Total EUR '000
Assets				
Cash on hand and current accounts with banks	80,723	588	2,020	83,331
Deposits with other banks	2,095	69,969	-	72,064
Loans to financial institutions	977,848	-	1	977,848
Loans to other customers	2,401,375	-	-	2,401,376
Financial assets at fair value through profit or loss	30,376	-	-	30,376
Financial assets at fair value through other comprehensive income	303,737	195	-	303,932
Other assets	1,570	372	-	1,942
Total	3,797,724	71,124	2,021	3,870,869
Guarantees and commitments				
Issued guarantees	32,779	-	-	32,779
Issued guarantees in foreign currency	4,852	-	-	4,852
Open letters of credit in foreign currency	68	-	-	68
Undrawn loans	447,662	-	-	447,662
Total	485,361	-	-	485,361
Total credit risk exposure	4,283,085	71,124	2,021	4,356,230

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Group				
31 December 2022	Republic of Croatia EUR '000	EU countries EUR '000	Other countries EUR '000	Total EUR '000
Assets				
Cash on hand and current accounts with banks	215,251	11,345	1,942	228,538
Deposits with other banks	2,997	1,407	-	4,404
Loans to financial institutions	927,031	-	-	927,031
Loans to other customers	2,298,458	-	11,273	2,309,731
Financial assets at fair value through profit or loss	3,168	-	-	3,168
Financial assets at fair value through other comprehensive income	349,323	195	-	349,518
Other assets	700	182	407	1,289
Total	3,796,928	13,129	13,622	3,823,679
Guarantees and commitments				
Issued guarantees	29,487	-	-	29,487
Issued guarantees in foreign currency	3,559	-	-	3,559
Open letters of credit in foreign currency	165	-	-	165
Undrawn loans	351,441	-	-	351,441
Total	384,652	-	-	384,652
Total credit risk exposure	4,181,580	13,129	13,622	4,208,331

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Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Bank 30 June 2023	Republic of Croatia EUR '000	EU countries EUR '000	Other countries EUR '000	Total EUR '000
Assets				
Cash on hand and current accounts with banks	79,800	588	2,020	82,408
Deposits with other banks	1	69,969	-	69,970
Loans to financial institutions	977,848	-	-	977,848
Loans to other customers	2,401,375	-	1	2,401,376
Financial assets at fair value through profit or loss	30,376	-	-	30,376
Financial assets at fair value through other comprehensive income	297,552	195	-	297,747
Other assets	463	372	-	835
Total	3,787,415	71,124	2,021	3,860,560
Guarantees and commitments				
Issued guarantees	32,779	-	-	32,779
Issued guarantees in foreign currency	4,852	-	-	4,852
Open letters of credit in foreign currency	68	-	-	68
Undrawn loans	447,662	-	-	447,662
Total	485,361	-	-	485,361
Total credit risk exposure	4,272,776	71,124	2,021	4,345,921

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Bank 31 December 2022	Republic of Croatia EUR '000	EU countries EUR '000	Other countries EUR '000	Total EUR '000
Assets				
Cash on hand and current accounts with banks	214,535	11,344	1,942	227,821
Deposits with other banks	-	1,406	-	1,406
Loans to financial institutions	927,031	-	-	927,031
Loans to other customers	2,298,458	-	11,273	2,309,731
Financial assets at fair value through profit or loss	3,168	-	-	3,168
Financial assets at fair value through other comprehensive income	343,066	195	-	343,261
Other assets	497	-	-	497
Total	3,786,755	12,945	13,215	3,812,915
Guarantees and commitments				
Issued guarantees	29,487	-	-	29,487
Issued guarantees in foreign currency	3,559	-	-	3,559
Open letters of credit in foreign currency	165	-	-	165
Undrawn loans	351,441	-	-	351,441
Total	384,652	-	-	384,652
Total credit risk exposure	4,171,407	12,945	13,215	4,197,567

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Group	Highest exposure		Highest exposure after the effect of mitigation through collateral received	
	30 June	30 June	31 December	31 December
	2023	2023	2022	2022
	EUR '000	EUR '000	EUR '000	EUR '000
Financial intermediation and insurance	1,353,293	-	1,314,535	-
Water and electric supply and other infrastructure	363,295	177,564	338,065	140,862
Tourism	422,797	26,938	448,101	31,432
Transport, warehousing and connections	420,217	102,612	389,205	71,864
Shipbuilding	207,774	28,920	198,653	5,626
Agriculture and fishery	85,206	16,569	78,260	12,630
Food industry	124,288	17,692	113,820	16,075
Construction industry	379,967	13,352	358,672	11,012
Other industry	138,995	32,086	119,184	27,473
Public administration	316,840	316,416	364,182	363,760
Education	8,679	8,190	8,791	8,420
Manufacture of basic metals and fabricated metal products, except machinery and equipment	52,686	7,267	51,882	6,910
Manufacture of chemicals and chemical products	13,740	1,196	6,739	258
Manufacture of other non-metallic mineral products	45,261	16,462	33,290	15,921
Pharmaceutical industry	69,900	13,287	71,431	13,252
Manufacture of motor vehicles, trailers and semi - trailers	16,401	507	15,269	426
Manufacture of electrical equipment	21,211	5,471	15,944	7,524
Manufacture of machinery and equipment	33,883	2,959	19,983	2,985
Other	281,797	73,038	262,325	63,035
Total credit risk exposure	4,356,230	860,526	4,208,331	799,465

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Bank	Highest exposure after the effect of mitigation through collateral received		Highest exposure after the effect of mitigation through collateral received	
	Highest exposure	Highest exposure	Highest exposure	Highest exposure
	30 June	30 June	31 December	31 December
	2023	2023	2022	2022
	EUR '000	EUR '000	EUR '000	EUR '000
Financial intermediation and insurance	1,350,276	-	1,310,233	-
Water and electric supply and other infrastructure	363,295	177,564	338,065	140,862
Tourism	422,797	26,938	448,101	31,432
Transport, warehousing and connections	420,211	102,605	389,198	71,857
Shipbuilding	207,774	28,920	198,653	5,626
Agriculture and fishery	85,198	16,561	78,253	12,622
Food industry	124,269	17,672	113,811	16,066
Construction industry	379,819	13,204	358,649	10,989
Other industry	138,930	32,022	119,118	27,408
Public administration	310,655	310,231	358,171	357,749
Education	8,679	8,190	8,791	8,420
Manufacture of basic metals and fabricated metal products, except machinery and equipment	52,681	7,261	51,877	6,904
Manufacture of chemicals and chemical products	13,740	1,196	6,739	258
Manufacture of other non-metallic mineral products	45,261	16,462	33,290	15,921
Pharmaceutical industry	69,784	13,173	71,303	13,124
Manufacture of motor vehicles, trailers and semi - trailers	16,401	507	15,269	426
Manufacture of electrical equipment	21,211	5,471	15,944	7,524
Manufacture of machinery and equipment	33,883	2,959	19,983	2,985
Other	281,057	72,298	262,119	62,829
Total credit risk exposure	4,345,921	853,234	4,197,567	793,002

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.

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Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

323. Risk management (continued)

23.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

The fair value of collateral for the Group as of 30 June 2023 amounted to EUR 3,495,704 thousand (31 December 2022: EUR 3,408,866 thousand) and for the Bank EUR 3,492,687 thousand (31 December 2022: EUR 3,404,565 thousand).

Net highest exposure as of 30 June 2023 for the Group amounted to EUR 860,526 thousand (31 December 2022: EUR 799,465 thousand) and for the Bank EUR 853,234 thousand (31 December 2022: EUR 793,002 thousand).

In the total net highest exposure after the effect of mitigation through collateral received as of 30 June 2023, the credit risk of EUR 494,884 thousand for the Group (31 December 2022: EUR 541,964 thousand) and EUR 488,995 thousand for the Bank (31 December 2022: EUR 535,995 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 EUR 65,750 thousand (31 December 2022: EUR 71,731 thousand), from local (regional) authorities of EUR 106,627 thousand (31 December 2022: EUR 100,543 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of EUR 19,123 thousand (31 December 2022: EUR 20,717 thousand), government funds of EUR 2 thousand (31 December 2022: EUR 5 thousand), government bonds and Treasury bills of the Ministry of Finance of EUR 303,382 thousand for the Group and EUR 297,493 thousand for the Bank (31 December 2022: EUR 348,968 thousand for the Group and EUR 342,999 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 banks.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

Credit risk quality according to type of financial assets

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

Group 30 June 2023	Net exposure of portfolio - risk Stage 1 EUR '000	Net exposure of portfolio - risk Stage 2 EUR '000	Net exposure of portfolio - risk Stage 3 EUR '000	Net exposure of portfolio of risk POCI EUR '000	Not subject to IFRS 9 EUR '000	Net exposure of total portfolio EUR '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 EUR '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 EUR '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 EUR '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI EUR '000	Not subject to IFRS 9 after the effect of mitigation through collateral received EUR '000	Net exposure of total portfolio after the effect of mitigation through collateral received EUR '000
Assets												
Cash on hand and current accounts with banks	83,331	-	-	-	-	83,331	-	-	-	-	-	-
Deposits with other banks	72,064	-	-	-	-	72,064	-	-	-	-	-	-
Loans to financial institutions	944,804	32,750	294	-	-	977,848	-	-	-	-	-	-
Loans to other customers	1,893,746	187,920	141,351	178,359	-	2,401,376	329,957	14,365	16,195	38,463	-	398,980
Financial assets at fair value through profit or loss	-	-	-	-	30,376	30,376	-	-	-	-	60	60
Financial assets at fair value through other comprehensive income	303,678	59	195	-	-	303,932	303,678	59	195	-	-	303,932
Other assets	1,738	1	197	6	-	1,942	1,180	1	197	6	-	1,384
Total	3,299,361	220,730	142,037	178,365	30,376	3,870,869	634,815	14,425	16,587	38,469	60	704,356
Guarantees and commitments												
Issued guarantees	16,844	376	15,559	-	-	32,779	16,450	1	2,940	-	-	19,391
Issued guarantees in foreign currency	54	-	4,798	-	-	4,852	16	-	2,953	-	-	2,969
Open letters of credit in foreign currency	-	-	-	-	68	68	-	-	-	-	-	-
Undrawn loans	435,702	8,167	-	3,793	-	447,662	128,930	4,399	-	481	-	133,810
Total	452,600	8,543	20,357	3,793	68	485,361	145,396	4,400	5,893	481	-	156,170
Total credit risk exposure	3,751,961	229,273	162,394	182,158	30,444	4,356,230	780,211	18,825	22,480	38,950	60	860,526

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

Credit risk quality according to type of financial assets

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

Group 31 December 2022	Net exposure of portfolio - risk Stage 1 EUR '000	Net exposure of portfolio - risk Stage 2 EUR '000	Net exposure of portfolio - risk Stage 3 EUR '000	Net exposure of portfolio of risk POCI EUR '000	Not subject to IFRS 9 EUR '000	Net exposure of total portfolio EUR '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 EUR '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 EUR '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 EUR '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI EUR '000	Not subject to IFRS 9 after the effect of mitigation through collateral received EUR '000	Net exposure of total portfolio after the effect of mitigation through collateral received EUR '000
Assets												
Cash on hand and current accounts with banks	228,538	-	-	-	-	228,538	-	-	-	-	-	-
Deposits with other banks	4,404	-	-	-	-	4,404	-	-	-	-	-	-
Loans to financial institutions	890,106	36,614	311	-	-	927,031	-	-	-	-	-	-
Loans to other customers	1,810,045	190,416	152,021	157,249	-	2,309,731	307,778	18,588	13,878	23,060	-	363,304
Financial assets at fair value through profit or loss	-	-	-	-	3,168	3,168	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	349,257	66	195	-	-	349,518	349,257	66	195	-	-	349,518
Other assets	1,091	-	190	8	-	1,289	284	-	190	8	-	482
Total	3,283,441	227,096	152,717	157,257	3,168	3,823,679	657,319	18,654	14,263	23,068	-	713,304
Guarantees and commitments												
Guarantees issued in HRK	15,891	384	13,212	-	-	29,487	15,509	1	5,447	-	-	20,957
Issued guarantees in foreign currency	55	-	3,504	-	-	3,559	16	-	3,504	-	-	3,520
Open letters of credit in foreign currency	-	-	-	-	165	165	-	-	-	-	-	-
Undrawn loans	325,149	9,801	-	16,491	-	351,441	60,389	1,295	-	-	-	61,684
Total	341,095	10,185	16,716	16,491	165	384,652	75,914	1,296	8,951	-	-	86,161
Total credit risk exposure	3,624,536	237,281	169,433	173,748	3,333	4,208,331	733,233	19,950	23,214	23,068	-	799,465

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

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

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

Bank							Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 EUR '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 EUR '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 EUR '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI EUR '000	Not subject to IFRS 9 after the effect of mitigation through collateral received EUR '000	Net exposure of total portfolio after the effect of mitigation through collateral received EUR '000
30 June 2023												
Assets												
Cash on hand and current accounts with banks	82,408	-	-	-	-	82,408	-	-	-	-	-	-
Deposits with other banks	69,970	-	-	-	-	69,970	-	-	-	-	-	-
Loans to financial institutions	944,804	32,750	294	-	-	977,848	-	-	-	-	-	-
Loans to other customers	1,893,746	187,920	141,351	178,359	-	2,401,376	329,957	14,365	16,195	38,463	-	398,980
Financial assets at fair value through profit or loss	-	-	-	-	30,376	30,376	-	-	-	-	60	60
Financial assets at fair value through other comprehensive income	297,493	59	195	-	-	297,747	297,493	59	195	-	-	297,747
Other assets	631	1	197	6	-	835	73	1	197	6	-	277
Total	3,289,052	220,730	142,037	178,365	30,376	3,860,560	627,523	14,425	16,587	38,469	60	697,064
Guarantees and commitments												
Issued guarantees	16,844	376	15,559	-	-	32,779	16,450	1	2,940	-	-	19,391
Issued guarantees in foreign currency	54	-	4,798	-	-	4,852	16	-	2,953	-	-	2,969
Open letters of credit in foreign currency	-	-	-	-	68	68	-	-	-	-	-	-
Undrawn loans	435,702	8,167	-	3,793	-	447,662	128,930	4,399	-	481	-	133,810
Total	452,600	8,543	20,357	3,793	68	485,361	145,396	4,400	5,893	481	-	156,170
Total credit risk exposure	3,741,652	229,273	162,394	182,158	30,444	4,345,921	772,919	18,825	22,480	38,950	60	853,234

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

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

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

Bank							Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 EUR '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 EUR '000	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 EUR '000	Net exposure of portfolio after the effect of mitigation through collateral received POCI EUR '000	Not subject to IFRS 9 after the effect of mitigation through collateral received EUR '000	Net exposure of total portfolio after the effect of mitigation through collateral received EUR '000
31 December 2022												
	Net exposure of portfolio - risk Stage 1 EUR '000	Net exposure of portfolio - risk Stage 2 EUR '000	Net exposure of portfolio - risk Stage 3 EUR '000	Net exposure of portfolio of risk POCI EUR '000	Not subject to IFRS 9 EUR '000	Net exposure of total portfolio EUR '000						
Assets												
Cash on hand and current accounts with banks	227,821	-	-	-	-	227,821	-	-	-	-	-	-
Deposits with other banks	1,406	-	-	-	-	1,406	-	-	-	-	-	-
Loans to financial institutions	890,106	36,614	311	-	-	927,031	-	-	-	-	-	-
Loans to other customers	1,810,045	190,416	152,021	157,249	-	2,309,731	307,778	18,588	13,878	23,060	-	363,304
Financial assets at fair value through profit or loss	-	-	-	-	3,168	3,168	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	343,000	66	195	-	-	343,261	343,000	66	195	-	-	343,261
Other assets	299	-	190	8	-	497	78	-	190	8	-	276
Total	3,272,677	227,096	152,717	157,257	3,168	3,812,915	650,856	18,654	14,263	23,068	-	706,841
Guarantees and commitments												
Guarantees issued in HRK	15,891	384	13,212	-	-	29,487	15,509	1	5,447	-	-	20,957
Issued guarantees in foreign currency	55	-	3,504	-	-	3,559	16	-	3,504	-	-	3,520
Open letters of credit in foreign currency	-	-	-	-	165	165	-	-	-	-	-	-
Undrawn loans	325,149	9,801	-	16,491	-	351,441	60,389	1,295	-	-	-	61,684
Total	341,095	10,185	16,716	16,491	165	384,652	75,914	1,296	8,951	-	-	86,161
Total credit risk exposure	3,613,772	237,281	169,433	173,748	3,333	4,197,567	726,770	19,950	23,214	23,068	-	793,002

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

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

As at 30 June 2023 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 EUR 191,481 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of EUR 65,731 thousand, local and regional authorities of EUR 106,627 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of EUR 19,123 thousand.

As at 30 June 2023 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 EUR 303,382 thousand for the Group and EUR 297,493 thousand for the Bank.

As at 30 June other assets of EUR 21 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

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 EUR 192,972 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of EUR 71,712 thousand, local and regional authorities of EUR 100,543 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of EUR 20,717 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 EUR 348,968 thousand for the Group and EUR 342,999 thousand for the Bank.

As at 31 December 2022 other assets of EUR 24 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances

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

Cash on hand and current accounts with banks

Group

30 June 2023

	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2023	805	-	-	-	805
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net(release) of loss allowance	(547)	-	-	-	(547)
Net foreign exchange gain/loss on loss allowances	-	-	-	-	-
Balance at 30 June 2023	258	-	-	-	258

Group

31 December 2022

	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2022	240	-	-	-	240
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	564	-	-	-	564
Net foreign exchange gain/loss on loss allowances	1	-	-	-	1
Balance at 31 December 2022	805	-	-	-	805

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances (continued)

Cash on hand and current accounts with banks (continued)

Bank					
30 June 2023	Stage 1	Stage 2	Stage 3	POCI	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Balance at 1 January 2023	804	-	-	-	804
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release) of loss allowance	(547)	-	-	-	(547)
Net foreign exchange gain/loss on loss allowances	-	-	-	-	-
Balance at 30 June 2023	257	-	-	-	257

Bank					
31 December 2022	Stage 1	Stage 2	Stage 3	POCI	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Balance at 1 January 2022	239	-	-	-	239
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	564	-	-	-	564
Net foreign exchange gain/loss on loss allowances	1	-	-	-	1
Balance at 31 December 2022	804	-	-	-	804

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Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances (continued)

Deposits with other banks

Group

30 June 2023

	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2023	5	-	-	-	5
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	14	-	-	-	14
Net foreign exchange gain/loss on loss allowances	-	-	-	-	-
Balance at 30 June 2023	19	-	-	-	19

Group

31 December 2022

	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2022	-	-	-	-	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	5	-	-	-	5
Net foreign exchange gain/loss on loss allowances	-	-	-	-	-
Balance at 31 December 2022	5	-	-	-	5

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

ii. Allowances (continued)

Deposits with other banks

Bank

30 June 2023

	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2023	-	-	-	-	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	15	-	-	-	15
Net foreign exchange gain/loss on loss allowances	-	-	-	-	-
Balance at 30 June 2023	15	-	-	-	15

Bank

31 December 2022

	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2022	-	-	-	-	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	-	-	-	-	-
Net foreign exchange gain/loss on loss allowances	-	-	-	-	-
Balance at 31 December 2022	-	-	-	-	-

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances (continued)

Loans to financial institutions

**Group and Bank
30 June 2023**

	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2023	3,544	3,635	899	-	8,078
Correction of opening balance	-	-	(5)	-	(5)
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase/(release) of loss allowance	161	(518)	(18)	-	(375)
Unwinding – changes due to the lapse of time	-	-	-	-	-
Net foreign exchange gain/loss on loss allowances	-	-	-	-	-
Balance at 30 June 2023	3,705	3,117	876	-	7,698

**Group and Bank
31 December 2022**

	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2022	3,922	3,077	818	-	7,817
Transfer to Stage 1	18	(18)	-	-	-
Transfer to Stage 2	(254)	254	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release)/increase of loss allowance	(147)	318	82	-	253
Unwinding – changes due to the lapse of time	-	-	(1)	-	(1)
Net foreign exchange gain/loss on loss allowances	5	4	-	-	9
Balance at 31 December 2022	3,544	3,635	899	-	8,078

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances (continued)

Loans to other customers

Group and Bank 30 June 2023	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2023	47,280	104,067	277,638	29,576	458,561
Opening balance of provisions correction	-	-	472	17	489
Transfer to Stage 1	2,094	(1,789)	(305)	-	-
Transfer to Stage 2	(169)	869	(700)	-	-
Transfer to Stage 3	(3)	(1,320)	(1,328)	2,651	-
Net (release)/increase of loss allowance	(2,822)	2,091	(1,864)	(14,668)	(17,263)
Write-offs	-	-	(238)	(18)	(256)
Unwinding – changes due to the lapse of time	(16)	(112)	775	1,227	1,874
Other	-	-	-	11,737	11,737
Net foreign exchange gain/loss on loss allowances	-	-	(283)	69	(214)
Balance at 30 June 2023	46,364	103,806	274,167	30,591	454,928

Group and Bank 31 December 2022	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2022	50,648	73,768	278,594	29,124	432,134
Transfer to Stage 1	38,771	(16,940)	(21,831)	-	-
Transfer to Stage 2	(10,638)	11,092	(454)	-	-
Transfer to Stage 3	(5)	(33,680)	31,349	2,336	-
Net (release)/increase of loss allowance	(30,529)	69,808	(5,380)	(16,646)	17,253
Write-offs	-	-	(3,741)	-	(3,741)
Transfer to off-balance sheet records	-	-	(2,671)	-	(2,671)
Unwinding – changes due to the lapse of time	(1,364)	(132)	929	2,406	1,839
Other	-	-	-	12,396	12,396
Net foreign exchange gain/loss on loss allowances	397	151	843	(40)	1,351
Balance at 31 December 2022	47,280	104,067	277,638	29,576	458,561

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances (continued)

Financial assets at fair value through other comprehensive income

Group 30 June 2023	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2023	339	48	231	-	618
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release) of loss allowance	(41)	(3)	-	-	(44)
Net foreign exchange gain/loss on loss allowances	-	-	-	-	-
Balance at 30 June 2023	298	45	231	-	574

Group 31 December 2022	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2022	374	-	229	-	603
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(6)	6	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release)/increase of loss allowance	(29)	42	1	-	14
Net foreign exchange gain/loss on loss allowances	-	-	1	-	1
Balance at 31 December 2022	339	48	231	-	618

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances (continued)

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

Bank 30 June 2023	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2023	327	48	231	-	606
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release) of loss allowance	(42)	(3)	-	-	(45)
Net foreign exchange gain/loss on loss allowances	-	-	-	-	-
Balance at 30 June 2023	285	45	231	-	561

Bank 31 December 2022	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2022	362	-	229	-	591
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(6)	6	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release)/increase of loss allowance	(29)	42	1	-	14
Net foreign exchange gain/loss on loss allowances	-	-	1	-	1
Balance at 31 December 2022	327	48	231	-	606

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances (continued)

Other assets

Group 30 June 2023	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2023	25	-	4,631	35	4,691
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release) of loss allowance	(2)	-	(250)	(3)	(255)
Write-offs	-	-	-	-	-
Net foreign exchange gain/loss on loss allowances	-	-	-	-	-
Other adjustments	(12)	-	-	3	(9)
Balance at 30 June 2023	11	-	4,381	35	4,427

Group 31 December 2022	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2022	23	1	4,170	33	4,227
Transfer to Stage 1	1	-	(1)	-	-
Transfer to Stage 2	(4)	4	-	-	-
Transfer to Stage 3	-	(14)	14	-	-
Net increase of loss allowance	7	9	484	-	500
Write-offs	(2)	-	(4)	-	(6)
Net foreign exchange gain/loss on loss allowances	-	-	(29)	-	(29)
Other adjustments	-	-	(3)	2	(1)
Balance at 31 December 2022	25	-	4,631	35	4,691

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances (continued)

Other assets (continued)

Bank 30 June 2023	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2023	3	-	4,631	35	4,669
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net (release) of loss allowance	(1)	-	(250)	(3)	(254)
Write-offs	-	-	-	-	-
Net foreign exchange gain/loss on loss allowances	-	-	-	-	-
Other adjustments	-	-	-	3	3
Balance at 30 June 2023	2	-	4,381	35	4,418

Bank 31 December 2022	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2022	4	1	4,169	33	4,207
Transfer to Stage 1	1	-	(1)	-	-
Transfer to Stage 2	(4)	4	-	-	-
Transfer to Stage 3	-	(14)	14	-	-
Net increase/(release) of loss allowance	2	9	485	-	496
Write-offs	-	-	(5)	-	(5)
Net foreign exchange gain/loss on loss allowances	-	-	(29)	-	(29)
Transfer to off-balance sheet records	-	-	(2)	-	(2)
Other adjustments	-	-	-	2	2
Balance at 31 December 2022	3	-	4,631	35	4,669

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.3. Credit risk (continued)

i. Allowances (continued)

Guarantees and commitments

**Group and Bank
30 June 2023**

	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2023	1,387	1,670	7,093	564	10,714
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase/(release) of loss	3,202	(240)	1,694	(385)	4,271
Net foreign exchange gain/loss on loss allowances	-	-	(95)	(1)	(96)
Balance at 30 June 2023	4,589	1,430	8,692	178	14,889

**Group and Bank
31 December 2022**

	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2022	1,414	3,485	10,987	1,313	17,199
Transfer to Stage 1	1,092	(1,092)	-	-	-
Transfer to Stage 2	(173)	173	-	-	-
Transfer to Stage 3	-	(738)	738	-	-
Net (release) of loss allowance	(943)	(167)	(4,567)	(718)	(6,395)
Net foreign exchange gain/loss on loss allowances	(3)	9	(65)	(31)	(90)
Balance at 31 December 2022	1,387	1,670	7,093	564	10,714

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.4. Liquidity risk

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 30 June 2023 and 31 December 2022 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

Group 30 June 2023	Up to 1 month EUR '000	1 to 3 months EUR '000	3 months to 1 year EUR '000	1 to 3 years EUR '000	Over 3 years EUR '000	Total EUR '000
Assets						
Cash on hand and current accounts with banks	83,331	-	-	-	-	83,331
Deposits with other banks	68,766	2,014	-	-	1,284	72,064
Loans to financial institutions*	28,941	32,675	115,232	276,643	524,357	977,848
Loans to other customers	274,771	52,286	336,849	553,941	1,183,529	2,401,376
Financial assets at fair value through profit or loss	46	103	-	30,273	17,107	47,529
Financial assets at fair value through other comprehensive income	309,871	1,822	4	-	-	311,697
Property, plant and equipment and intangible assets	-	-	-	-	4,850	4,850
Foreclosed assets	-	-	126	1,837	1,372	3,335
Other assets	2,056	183	1,879	2,912	351	7,381
Total assets	767,782	89,083	454,090	865,606	1,732,850	3,909,411
Liabilities						
Deposits from customers	98,974	3,547	12,466	210	8,671	123,868
Borrowings	74,021	29,020	592,048	593,185	932,119	2,220,393
Provisions for guarantees, commitments and other liabilities	13,642	661	2,363	4,294	1,905	22,865
Other liabilities	52,485	2,534	11,690	16,501	7,308	90,518
Total liabilities	239,122	35,762	618,567	614,190	950,003	2,457,644
Liquidity gap	528,660	53,321	(164,477)	251,416	782,847	1,451,767
Guarantees and commitments						
Issued guarantees	40,339	-	-	-	-	40,339
Issued guarantees in foreign currency	6,923	-	-	-	-	6,923
Open letters of credit in foreign currency	68	-	-	-	-	68
Undrawn loans	452,920	-	-	-	-	452,920
EIF – subscribed, not called up capital	10,400	-	-	-	-	10,400
EIF CROGIP Contracted Liability	1,122	1,550	5,821	12,012	12,955	33,460
EIF FRC2 Contracted Liability	73	58	99	30	42	302
Total guarantees and commitments	511,845	1,608	5,920	12,042	12,997	544,412

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 period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.4. Liquidity risk

Group 31 December 2022	Up to 1 month EUR '000	1 to 3 months EUR '000	3 months to 1 year EUR '000	1 to 3 years EUR '000	Over 3 years EUR '000	Total EUR '000
Assets						
Cash on hand and current accounts with	228,538	-	-	-	-	228,538
Deposits with other banks	-	2,998	-	-	1,406	4,404
Loans to financial institutions*	33,066	26,296	111,878	255,183	500,608	927,031
Loans to other customers	193,225	69,967	277,458	572,447	1,196,634	2,309,731
Financial assets at fair value through profit or loss	14,367	59	-	3,030	-	17,456
Financial assets at fair value through other comprehensive income	354,715	1,856	5	-	-	356,576
Property, plant and equipment and intangible assets	-	-	-	-	5,153	5,153
Foreclosed assets	-	-	261	1,728	1,299	3,288
Other assets	769	733	772	2,161	334	4,769
Total assets	824,680	101,909	390,374	834,549	1,705,434	3,856,946
Liabilities						
Deposits from customers	98,077	3,894	14,620	10,011	9,388	135,990
Borrowings	73,705	41,082	431,959	702,300	941,050	2,190,096
Provisions for guarantees, commitments and other liabilities	13,811	359	1,324	2,394	1,053	18,941
Other liabilities	63,350	2,751	7,182	12,174	4,334	89,791
Total liabilities	248,943	48,086	455,085	726,879	955,825	2,434,818
Liquidity gap	575,737	53,823	(64,711)	107,670	749,609	1,422,128
Guarantees and commitments						
Guarantees issued in HRK	36,008	-	-	-	-	36,008
Issued guarantees in foreign currency	5,073	-	-	-	-	5,073
Open letters of credit in foreign currency	165	-	-	-	-	165
Undrawn loans	354,120	-	-	-	-	354,120
EIF – subscribed, not called up capital	10,400	-	-	-	-	10,400
EIF CROGIP Contracted Liability	-	2,565	7,696	14,101	11,914	36,276
EIF FRC2 Contracted Liability	49	54	245	39	16	403
Total guarantees and commitments	405,815	2,619	7,941	14,140	11,930	442,445

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 period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.4. Liquidity risk (continued)

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 30 June 2023 and 31 December 2022 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

Bank 30 June 2023	Up to 1 month EUR '000	1 to 3 months EUR '000	3 months to 1 year EUR '000	1 to 3 years EUR '000	Over 3 years EUR '000	Total EUR '000
Assets						
Cash on hand and current accounts with banks	82,408	-	-	-	-	82,408
Deposits with other banks	68,686	-	-	-	1,284	69,970
Loans to financial institutions*	28,941	32,675	115,232	276,643	524,357	977,848
Loans to other customers	274,771	52,286	336,849	553,941	1,183,529	2,401,376
Financial assets at fair value through profit or loss	46	103	-	30,273	17,107	47,529
Financial assets at fair value through other comprehensive income	303,698	1,814	-	-	-	305,512
Investments in subsidiaries	-	-	-	-	7,449	7,449
Property, plant and equipment and intangible assets	-	-	-	-	4,685	4,685
Foreclosed assets	-	-	126	1,837	1,372	3,335
Other assets	918	182	1,879	2,912	170	6,061
Total assets	759,468	87,060	454,086	865,606	1,739,953	3,906,173
Liabilities						
Deposits from customers	98,974	3,547	12,466	210	8,671	123,868
Borrowings	74,021	29,020	592,048	593,185	932,119	2,220,393
Provisions for guarantees, commitments and other liabilities	13,642	661	2,361	4,294	1,905	22,863
Other liabilities	52,344	2,534	9,060	16,476	7,308	87,722
Total liabilities	238,981	35,762	615,935	614,165	950,003	2,454,846
Liquidity gap	520,487	51,298	(161,849)	251,441	789,950	1,451,327
Guarantees and commitments						
Issued guarantees	40,339	-	-	-	-	40,339
Issued guarantees in foreign currency	6,923	-	-	-	-	6,923
Open letters of credit in foreign currency	68	-	-	-	-	68
Undrawn loans	452,920	-	-	-	-	452,920
EIF – subscribed, not called up capital	10,400	-	-	-	-	10,400
EIF CROGIP Contracted Liability	1,122	1,550	5,821	12,012	12,955	33,460
EIF FRC2 Contracted Liability	73	58	99	30	42	302
Total guarantees and commitments	511,845	1,608	5,920	12,042	12,997	544,412

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 period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.4. Liquidity risk (continued)

Bank 31 December 2022	Up to 1 month EUR '000	1 to 3 months EUR '000	3 months to 1 year EUR '000	1 to 3 years EUR '000	Over 3 years EUR '000	Total EUR '000
Assets						
Cash on hand and current accounts with banks	227,821	-	-	-	-	227,821
Deposits with other banks	-	-	-	-	1,406	1,406
Loans to financial institutions*	33,066	26,296	111,878	255,183	500,608	927,031
Loans to other customers	193,225	69,967	277,458	572,447	1,196,634	2,309,731
Financial assets at fair value through profit or loss	14,367	59	-	3,030	-	17,456
Financial assets at fair value through other comprehensive income	348,470	1,848	-	-	-	350,318
Investments in subsidiaries	-	-	-	-	7,449	7,449
Property, plant and equipment and intangible assets	-	-	-	-	5,007	5,007
Foreclosed assets	-	-	261	1,728	1,299	3,288
Other assets	531	142	729	2,161	179	3,742
Total assets	817,480	98,312	390,326	834,549	1,712,582	3,853,249
Liabilities						
Deposits from customers	98,077	3,894	14,620	10,011	9,388	135,990
Borrowings	73,705	41,082	431,959	702,300	941,050	2,190,096
Provisions for guarantees, commitments and other liabilities	13,811	359	1,319	2,394	1,053	18,936
Other liabilities	63,226	1,642	6,036	10,959	4,823	86,686
Total liabilities	248,819	46,977	453,934	725,664	956,314	2,431,708
Liquidity gap	568,661	51,335	(63,608)	108,885	756,268	1,421,541
Guarantees and commitments						
Guarantees issued in HRK	36,008	-	-	-	-	36,008
Issued guarantees in foreign currency	5,073	-	-	-	-	5,073
Open letters of credit in foreign currency	165	-	-	-	-	165
Undrawn loans	354,120	-	-	-	-	354,120
EIF – subscribed, not called up capital	10,400	-	-	-	-	10,400
EIF CROGIP Contracted Liability	-	2,565	7,696	14,101	11,914	36,276
EIF FRC2 Contracted Liability	49	54	245	39	16	403
Total guarantees and commitments	405,815	2,619	7,941	14,140	11,930	442,445

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 period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.4. Liquidity risk (continued)

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

Group 30 June 2023	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Financial liabilities						
Deposits from customers	98,974	3,547	12,466	210	8,671	123,868
Borrowings	75,245	28,006	616,696	656,890	1,052,608	2,429,445
Provisions for guarantees, commitments and other liabilities	13,642	661	2,363	4,294	1,905	22,865
Other liabilities	52,485	2,534	11,690	16,501	7,308	90,518
Total	240,346	34,748	643,215	677,895	1,070,492	2,666,696
Guarantees and commitments						
Issued guarantees	40,339	-	-	-	-	40,339
Issued guarantees in foreign currency	6,923	-	-	-	-	6,923
Open letters of credit in foreign currency	68	-	-	-	-	68
Undrawn loans	452,920	-	-	-	-	452,920
EIF – subscribed, not called up capital	10,400	-	-	-	-	10,400
EIF CROGIP Contracted Liability	1,122	1,550	5,821	12,012	12,955	33,460
EIF FRC2 Contracted Liability	73	58	99	30	42	302
Total guarantees and commitments	511,845	1,608	5,920	12,042	12,997	544,412
Group 31 December 2022	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Financial liabilities						
Deposits from customers	98,077	3,894	14,620	10,011	9,388	135,990
Borrowings	75,187	39,643	449,195	755,216	1,068,147	2,387,388
Provisions for guarantees, commitments and other liabilities	13,811	359	1,324	2,394	1,053	18,941
Other liabilities	63,350	2,751	7,182	12,174	4,333	89,790
Total	250,425	46,647	472,321	779,795	1,082,921	2,632,109
Guarantees and commitments						
Guarantees issued In HRK	36,008	-	-	-	-	36,008
Issued guarantees in foreign currency	5,073	-	-	-	-	5,073
Open letters of credit in foreign currency	165	-	-	-	-	165
Undrawn loans	354,120	-	-	-	-	354,120
EIF – subscribed, not called up capital	10,400	-	-	-	-	10,400
EIF CROGIP Contracted Liability	-	2,565	7,696	14,101	11,914	36,276
EIF FRC2 Contracted Liability	49	54	245	39	16	403
Total guarantees and commitments	405,815	2,619	7,941	14,140	11,930	442,445

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.4. Liquidity risk (continued)

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

Bank 30 June 2023	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Financial liabilities						
Deposits from customers	98,974	3,547	12,466	210	8,671	123,868
Borrowings	75,245	28,006	616,696	656,890	1,052,608	2,429,445
Provisions for guarantees, commitments and other liabilities	13,642	661	2,361	4,294	1,905	22,863
Other liabilities	52,344	2,534	9,060	16,476	7,308	87,722
Total	240,205	34,748	640,583	677,870	1,070,492	2,663,898
Guarantees and commitments						
Issued guarantees	40,339	-	-	-	-	40,339
Issued guarantees in foreign currency	6,923	-	-	-	-	6,923
Open letters of credit in foreign currency	68	-	-	-	-	68
Undrawn loans	452,920	-	-	-	-	452,920
EIF – subscribed, not called up capital	10,400	-	-	-	-	10,400
EIF CROGIP Contracted Liability	1,122	1,550	5,821	12,012	12,955	33,460
EIF FRC2 Contracted Liability	73	58	99	30	42	302
Total guarantees and commitments	511,845	1,608	5,920	12,042	12,997	544,412
Bank 31 December 2022	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Financial liabilities						
Deposits from customers	98,077	3,894	14,620	10,011	9,388	135,990
Borrowings	75,187	39,643	449,195	755,216	1,068,147	2,387,388
Provisions for guarantees, commitments and other liabilities	13,811	359	1,319	2,394	1,053	18,936
Other liabilities	63,226	1,642	6,036	10,959	4,823	86,686
Total	250,301	45,538	471,170	778,580	1,083,411	2,629,000
Guarantees and commitments						
Guarantees issued in HRK	36,008	-	-	-	-	36,008
Issued guarantees in foreign currency	5,073	-	-	-	-	5,073
Open letters of credit in foreign currency	165	-	-	-	-	165
Undrawn loans	354,120	-	-	-	-	354,120
EIF – subscribed, not called up capital	10,400	-	-	-	-	10,400
EIF CROGIP Contracted Liability	-	2,565	7,696	14,101	11,914	36,276
EIF FRC2 Contracted Liability	49	54	245	39	16	403
Total guarantees and commitments	405,815	2,619	7,941	14,140	11,930	442,445

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.5. Market risk

Management of market risks at the Bank implies the reduction of interest rate risk and the currency risk to a minimal level.

23.5.1. Interest rate risk

The following tables demonstrate the sensitivity of the Group to the interest rate risk as of 30 June 2023 and 31 December 2022 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter.

Assets and liabilities on which interest is not charged are placed into the non-interest bearing category. The tables below demonstrate the estimation of Group's interest rate risk exposure as of 30 June 2023 and 31 December 2022 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
30 June 2023	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Assets								
Cash on hand and current accounts with banks	83,331	-	-	-	-	-	83,331	83,331
Deposits with other banks	68,685	80	1,996	-	-	1,303	72,064	70,761
Loans to financial institutions	28,346	43,442	112,998	271,180	521,422	460	977,848	965,679
Loans to other customers	253,034	98,171	366,904	529,192	1,132,658	21,417	2,401,376	2,209,156
Financial assets at fair value through profit or loss	-	-	-	30,273	-	17,256	47,529	30,273
Financial assets at fair value through other comprehensive income	302,061	-	-	-	-	9,636	311,697	302,061
Other assets	-	-	-	-	-	7,381	7,381	-
Total assets	735,457	141,693	481,898	830,645	1,654,080	57,453	3,901,226	3,661,261
Liabilities								
Deposits from customers	13,257	-	-	-	-	110,611	123,868	13,257
Borrowings	74,021	24,874	630,779	591,283	895,051	4,385	2,220,393	2,175,769
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	22,865	22,865	-
Other liabilities	-	-	-	-	-	90,518	90,518	-
Total liabilities	87,278	24,874	630,779	591,283	895,051	228,379	2,457,644	2,189,026
Interest rate gap	648,179	116,819	(148,881)	239,362	759,029	(170,926)	1,443,582	1,472,235

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.1. Interest rate risk (continued)

Group	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total	Fixed interest rate
31 December 2022	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Assets								
Cash on hand and current								
accounts with banks	14,003	-	-	-	-	214,535	228,538	14,003
Deposits with other banks	-	-	2,996	-	-	1,408	4,404	2,996
Loans to financial institutions	32,047	37,920	109,397	249,738	497,019	910	927,031	913,404
Loans to other customers	174,208	109,012	378,812	480,275	1,148,508	18,916	2,309,731	2,127,870
Financial assets at fair value through profit or loss	-	-	-	3,030	-	14,426	17,456	3,030
Financial assets at fair value through other comprehensive income	347,614	-	-	-	-	8,962	356,576	347,614
Other assets	-	-	-	-	-	4,769	4,769	-
Total assets	567,872	146,932	491,205	733,043	1,645,527	263,926	3,848,505	3,408,917
Liabilities								
Deposits from customers	20,000	-	-	-	-	115,990	135,990	20,000
Borrowings	73,704	38,587	450,827	701,955	921,028	3,995	2,190,096	2,165,690
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	18,941	18,941	-
Other liabilities	-	-	-	-	-	89,791	89,791	-
Total liabilities	93,704	38,587	450,827	701,955	921,028	228,717	2,434,818	2,185,690
Interest rate gap	474,168	108,345	40,378	31,088	724,499	35,209	1,413,687	1,223,227

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.1. Interest rate risk (continued)

The following tables demonstrate the sensitivity of HBOR to the interest rate risk as of 30 June 2023 and 31 December 2022 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 as of 30 June 2023 and 31 December 2022 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
30 June 2023	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Assets								
Cash on hand and current								
accounts with banks	82,408	-	-	-	-	-	82,408	82,408
Deposits with other banks	68,685	-	-	-	-	1,285	69,970	68,685
Loans to financial institutions	28,346	43,442	112,998	271,180	521,422	460	977,848	965,679
Loans to other customers	253,034	98,171	366,904	529,192	1,132,658	21,417	2,401,376	2,209,156
Financial assets at fair value through profit or loss	-	-	-	30,273	-	17,256	47,529	30,273
Financial assets at fair value through other comprehensive income	295,932	-	-	-	-	9,580	305,512	295,932
Other assets	-	-	-	-	-	6,061	6,061	-
Total assets	728,405	141,613	479,902	830,645	1,654,080	56,059	3,890,704	3,652,133
Liabilities								
Deposits from customers	13,257	-	-	-	-	110,611	123,868	13,257
Borrowings	74,021	24,874	630,779	591,283	895,051	4,385	2,220,393	2,175,769
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	22,863	22,863	-
Other liabilities	-	-	-	-	-	87,722	87,722	-
Total liabilities	87,278	24,874	630,779	591,283	895,051	225,581	2,454,846	2,189,026
Interest rate gap	641,127	116,739	(150,877)	239,362	759,029	(169,522)	1,435,858	1,463,107

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.1. Interest rate risk (continued)

Bank	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total	Fixed interest rate
31 December 2022	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Assets								
Cash on hand and current								
accounts with banks	13,287	-	-	-	-	214,534	227,821	13,287
Deposits with other banks	-	-	-	-	-	1,406	1,406	-
Loans to financial institutions	32,047	37,920	109,397	249,738	497,019	910	927,031	913,404
Loans to other customers	174,208	109,012	378,812	480,275	1,148,508	18,916	2,309,731	2,127,870
Financial assets at fair value through profit or loss	-	-	-	3,030	-	14,426	17,456	3,030
Financial assets at fair value through other comprehensive income	341,412	-	-	-	-	8,906	350,318	341,412
Other assets	-	-	-	-	-	3,742	3,742	-
Total assets	560,954	146,932	488,209	733,043	1,645,527	262,840	3,837,505	3,399,003
Liabilities								
Deposits from customers	20,000	-	-	-	-	115,990	135,990	20,000
Borrowings	73,704	38,587	450,827	701,955	921,028	3,995	2,190,096	2,165,690
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	18,936	18,936	-
Other liabilities	-	-	-	-	-	86,686	86,686	-
Total liabilities	93,704	38,587	450,827	701,955	921,028	225,607	2,431,708	2,185,690
Interest rate gap	467,250	108,345	37,382	31,088	724,499	37,233	1,405,797	1,213,313

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.1. Interest rate risk (continued)

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

	Group		Bank	
	30 June	31 December	30 June	31 December
	2023	2022	2023	2022
	EUR '000	EUR '000	EUR '000	EUR '000
Assets				
Fixed interest rate assets	3,661,261	3,408,917	3,652,133	3,399,003
Variable interest rate assets	182,512	175,662	182,512	175,662
Non-interest bearing	57,453	263,926	56,059	262,840
Total	3,901,226	3,848,505	3,890,704	3,837,505
Liabilities				
Fixed interest rate liabilities	2,189,026	2,185,690	2,189,026	2,185,690
Variable interest rate liabilities	40,239	20,411	40,239	20,411
Non-interest bearing	228,379	228,717	225,581	225,607
Total liabilities	2,457,644	2,434,818	2,454,846	2,431,708

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Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.1. Interest rate risk (continued)

Sensitivity analysis

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

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

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

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

Currency	Increase in b.p. Jun 30, 2023	Effect on profit Jun 30, 2023	Increase in b.p. Dec 31, 2022	Effect on profit Dec 31, 2022
		EUR '000		EUR '000
EUR	+15	198	+9	140
USD	+1	1	+2	-
Currency	Decrease in b.p. Jun 30, 2023	Effect on profit Jun 30, 2023	Decrease in b.p. Dec 31, 2022	Effect on profit Dec 31, 2022
		EUR '000		EUR '000
EUR	-15	(198)	-9	(140)
USD	-1	(1)	-2	-

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.2. Currency risk

Total assets and total liabilities as of 30 June 2023 and 31 December 2022 in EUR and foreign currencies can be shown as follows:

Group	EUR	USD	Other foreign currencies	Total
	EUR '000	EUR '000	EUR '000	EUR '000
30 June 2023				
Assets				
Cash on hand and current accounts with banks	81,305	2,022	4	83,331
Deposits with other banks	72,064	-	-	72,064
Loans to financial institutions	977,848	-	-	977,848
Loans to other customers	2,350,803	29,555	21,018	2,401,376
Financial assets at fair value through profit or loss	43,558	3,971	-	47,529
Financial assets at fair value through other comprehensive income	311,697	-	-	311,697
Property, plant and equipment and intangible assets	4,850	-	-	4,850
Foreclosed assets	3,335	-	-	3,335
Other assets	7,381	-	-	7,381
Total assets	3,852,841	35,548	21,022	3,909,411
Liabilities				
Deposits from customers	109,540	14,328	-	123,868
Borrowings	2,198,501	21,892	-	2,220,393
Provisions for guarantees, commitments and other liabilities	20,726	51	2,088	22,865
Other liabilities	90,251	219	48	90,518
Total liabilities	2,419,018	36,490	2,136	2,457,644
Currency gap	1,433,823	(942)	18,886	1,451,767

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.2. Currency risk

Group	EUR	USD	Other foreign currencies	Total
31 December 2022	EUR '000	EUR '000	EUR '000	EUR '000
Assets				
Cash on hand and current accounts with banks	226,588	1,946	4	228,538
Deposits with other banks	4,404	-	-	4,404
Loans to financial institutions	927,031	-	-	927,031
Loans to other customers	2,272,371	19,485	17,875	2,309,731
Financial assets at fair value through profit or loss	14,426	3,030	-	17,456
Financial assets at fair value through other comprehensive income	356,576	-	-	356,576
Property, plant and equipment and intangible assets	5,153	-	-	5,153
Foreclosed assets	3,288	-	-	3,288
Other assets	4,769	-	-	4,769
Total assets	3,814,606	24,461	17,879	3,856,946
Liabilities				
Deposits from customers	134,987	1,003	-	135,990
Borrowings	2,166,190	23,906	-	2,190,096
Provisions for guarantees, commitments and other liabilities	17,337	-	1,605	18,942
Other liabilities	89,753	30	7	89,790
Total liabilities	2,408,267	24,939	1,612	2,434,818
Currency gap	1,406,339	(478)	16,267	1,422,128

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.2. Currency risk

Total assets and total liabilities as of 31 March 2023 and 31 December 2022 in EUR and foreign currencies can be shown as follows:

Bank	EUR	USD	Other foreign currencies	Total
30 June 2023	EUR '000	EUR '000	EUR '000	EUR '000
Assets				
Cash on hand and current accounts with banks	80,382	2,022	4	82,408
Deposits with other banks	69,970	-	-	69,970
Loans to financial institutions	977,848	-	-	977,848
Loans to other customers	2,350,803	29,555	21,018	2,401,376
Financial assets at fair value through profit or loss	43,558	3,971	-	47,529
Financial assets at fair value through other comprehensive income	305,512	-	-	305,512
Investments in subsidiaries	7,449	-	-	7,449
Property, plant and equipment and intangible assets	4,685	-	-	4,685
Foreclosed assets	3,335	-	-	3,335
Other assets	6,061	-	-	6,061
Total assets	3,849,603	35,548	21,022	3,906,173
Liabilities				
Deposits from customers	109,540	14,328	-	123,868
Borrowings	2,198,501	21,892	-	2,220,393
Provisions for guarantees, commitments and other liabilities	20,724	51	2,088	22,863
Other liabilities	87,722	-	-	87,722
Total liabilities	2,416,487	36,271	2,088	2,454,846
Currency gap	1,433,116	(723)	18,934	1,451,327

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.2. Currency risk

Bank	EUR	USD	Other foreign currencies	Total
31 December 2022	EUR '000	EUR '000	EUR '000	EUR '000
Assets				
Cash on hand and current accounts with banks	225,871	1,946	4	227,821
Deposits with other banks	1,406	-	-	1,406
Loans to financial institutions	927,031	-	-	927,031
Loans to other customers	2,272,371	19,485	17,875	2,309,731
Financial assets at fair value through profit	14,426	3,030	-	17,456
Financial assets at fair value through other comprehensive income	350,318	-	-	350,318
Investments in subsidiaries	7,449	-	-	7,449
Property, plant and equipment and	5,007	-	-	5,007
Foreclosed assets	3,288	-	-	3,288
Other assets	3,742	-	-	3,742
Total assets	3,810,909	24,461	17,879	3,853,249
Liabilities				
Deposits from customers	134,987	1,003	-	135,990
Borrowings	2,166,190	23,906	-	2,190,096
Provisions for guarantees, commitments and other liabilities	17,331	-	1,605	18,936
Other liabilities	86,686	-	-	86,686
Total liabilities	2,405,194	24,909	1,605	2,431,708
Currency gap	1,405,715	(448)	16,274	1,421,541

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

23. Risk management (continued)

23.5. Market risk (continued)

23.5.2. Currency risk (continued)

Sensitivity analysis

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

An assumption of reasonably possible fluctuations in USD exchange rates against EUR was used in the foreign currency risk sensitivity analysis, with the other variables remaining stable, in order to assess the hypothetical effect on HBOR's profit as of 30 June 2023.

Volatility of the exchange rate EUR/USD, determined using the standard deviation method on the changes of the foreign exchange rate EUR/USD, equalled 9.45% in the last 12 months.

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

	Change in currency rate Jun 30, 2023 %	Effect on profit Jun 30, 2023 EUR' 000
USD	+9.45	50
USD	-9.45	(48)

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

24. Fair value of financial assets and financial liabilities

The accounting policy on fair value measurements is discussed in Note 4.1.

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

Below is a breakdown of the financial assets at fair value based on IFRS 9 classification on 30 June 2023 and 31 December 2022.

Group	30 June 2023		
	Level 1 EUR '000	Level 2 EUR '000	Level 3 EUR '000
Financial assets at fair value through profit or loss:			
Loans at FVPL:			
Mezzanine loans	-	-	30,273
Investments in investment funds:			
Investments in investment funds at fair value through profit or loss	17,107	-	-
Equity instruments:			
Listed equity instruments:			
Investments in corporate shares	-	-	4
Unlisted equity instruments:			
Investments in corporate shares	-	-	42
Depository receipt - DR	-	-	-
Derivative financial assets-positive fair value			
FX swap	-	103	-
Total financial assets at fair value through profit or loss	17,107	103	30,319
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	218,116	-	-
Corporate bonds	296	-	-
Treasury bills of the Ministry of Finance	83,397	-	-
Accrued interest	1,869	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	57
Convertible bonds - CB	-	-	195
Accrued interest	-	-	2
Total debt instruments	303,678	-	254
Unlisted equity instruments:			
Investment in shares of foreign legal entities	-	8	-
Shares of foreign financial institutions – EIF	-	7,757	-
Total equity instruments	-	7,765	-
Total financial assets at fair value through other comprehensive income	303,678	7,765	254

Treasury bills of the Ministry of Finance are presented at level 1 of the fair value hierarchy using the quoted purchase ("bid") prices on Bloomberg, and the market quoted price is applied as a valuation technique.

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

OTC FX swap is not quoted in the active market, and its price is calculated in accordance with the generally accepted model using current market parameters derived from the foreign exchange spot rate and the difference in interest rates of the contracted maturity for the foreign currencies that are the subject matter of the contract.

In the reporting period, the treasury bills of the Ministry of Finance were transferred from level 2 to level 1.

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

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

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

Group	31 December 2022		
	Level 1 EUR '000	Level 2 EUR '000	Level 3 EUR '000
Financial assets at fair value through profit or loss:			
<i>Loans at FVPL:</i>			
Mezzanine loans	-	-	3,030
<i>Investments in investment funds:</i>			
Investments in investment funds at fair value through profit or loss	14,242	-	-
<i>Equity instruments:</i>			
<i>Listed equity instruments:</i>			
Investments in corporate shares			
<i>Unlisted equity instruments:</i>			
Investments in corporate shares	-	-	4
Depository receipt - DR	-	-	42
Derivative financial assets-positive fair value			
FX swap	-	138	-
Total financial assets at fair value through profit or loss	14,242	138	3,076
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
<i>Listed debt instruments:</i>			
Bonds of the Republic of Croatia	177,001	-	-
Corporate bonds	289	-	-
Treasury bills of the Ministry of Finance	-	170,067	-
Accrued interest	1,901	-	-
<i>Unlisted debt instruments:</i>			
Corporate bonds	-	-	62
Convertible bonds - CB	-	-	195
Accrued interest	-	-	4
Total debt instruments	179,191	170,067	261
<i>Unlisted equity instruments:</i>			
Investment in shares of foreign legal entities	-	7	-
Shares of foreign financial institutions – EIF	-	7,050	-
Total equity instruments	-	7,057	-
Total financial assets at fair value through other comprehensive income	179,191	177,124	261

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

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

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

Group	30 June 2023		
	Level 1 EUR '000	Level 2 EUR '000	Level 3 EUR '000
Financial assets at fair value through profit or loss:			
<i>Loans at FVPL:</i>			
Mezzanine loans	-	-	30,273
<i>Investments in investment funds:</i>			
Investments in investment funds at fair value through profit or loss	17,107	-	-
<i>Equity instruments:</i>			
<i>Listed equity instruments:</i>			
Investments in corporate shares			
<i>Unlisted equity instruments:</i>			
Investments in corporate shares	-	-	4
Depository receipt - DR	-	-	42
Derivative financial assets-positive fair value			
FX swap	-	103	-
Total financial assets at fair value through profit or loss	17,107	103	30,319
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
<i>Listed debt instruments:</i>			
Bonds of the Republic of Croatia	212,283	-	-
Treasury bills of the Ministry of Finance	83,397	-	-
Accrued interest	1,813	-	-
<i>Unlisted debt instruments:</i>			
Corporate bonds	-	-	57
Convertible bonds - CB	-	-	195
Accrued interest	-	-	2
Total debt instruments	297,493	-	254
<i>Unlisted equity instruments:</i>			
Investment in shares of foreign legal entities – SWIFT	-	8	-
Shares of foreign financial institutions – EIF	-	7,757	-
Total equity instruments	-	7,765	-
Total financial assets at fair value through other comprehensive income	297,493	7,765	254

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

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

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

Group	31 December 2022		
	Level 1 EUR '000	Level 2 EUR '000	Level 3 EUR '000
Financial assets at fair value through profit or loss:			
<i>Loans at FVPL:</i>			
Mezzanine loans	-	-	3,030
<i>Investments in investment funds:</i>			
Investments in investment funds at fair value through profit or loss	14,242	-	-
Equity instruments:			
<i>Listed equity instruments:</i>			
Investments in corporate shares			
<i>Unlisted equity instruments:</i>			
Investments in corporate shares	-	-	4
Depository receipt - DR	-	-	42
Derivative financial assets-positive fair value			
FX swap	-	138	-
Total financial assets at fair value through profit or loss	14,242	138	3,076
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
<i>Listed debt instruments:</i>			
Bonds of the Republic of Croatia	171,089	-	-
Treasury bills of the Ministry of Finance	-	170,067	-
Accrued interest	1,844	-	-
<i>Unlisted debt instruments:</i>			
Corporate bonds	-	-	62
Convertible bonds - CB	-	-	195
Accrued interest	-	-	4
Total debt instruments	172,933	170,067	261
<i>Unlisted equity instruments:</i>			
Investment in shares of foreign legal entities – SWIFT	-	7	-
Shares of foreign financial institutions – EIF	-	7,050	-
Total equity instruments	-	7,057	-
Total financial assets at fair value through other comprehensive income	172,933	177,124	261

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Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

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

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

24.1.1. Level 3 - fair value

a) Mezzanine loans

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

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

- 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 30 June 2023, the market price of ordinary shares of the debtor that the Bank could subscribe amounted to EUR 3,971 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 30 June 2023, 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 30 June 2023 amounted to EUR 3,971 thousand, i.e. USD 4,344 thousand at the exchange rate on 30 June 2023.

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 EUR 3,971 thousand.

In the reporting period, a new mezzanine loan was placed in the amount of EUR 30,000 thousand. As at 30 June 2023, the fair value of this mezzanine debt stood at EUR 26,302 thousand. The fair value was calculated using the data from the Bloomberg platform - the curves required for revaluation and the projection of variable interest rate with the use of liquidity risk premium.

As at 30 June 2023, the total fair value of the mezzanine debt stood at EUR 30,273 thousand.

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

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

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

24.1.1. Level 3 - fair value (continued)

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.

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 30 June 2023, under the assumption of a change in discount rate (yield) of 2% and 10%

Under the assumption that the market interest rates change by 2% compared with those in effect as at 30 June 2023, 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 15.20%, the bond price would be 29.25%, which would result in an increase in HBOR's generated profits of EUR 1 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 19.20%, the bond price would be 28.48%, which would result in a decrease in HBOR's generated profits of EUR 1 thousand.

The change in interest rates defined in the "Decision on the Management of Interest Rate Risk in the Bank Book", which is applied when calculating standard interest rate shock, is used as the basis for the change in the market interest rate of 2% compared with the market terms and conditions in effect as at 30 June 2023. "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 EUR 6 thousand.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

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

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

24.1.1. Level 3 - fair value (continued)

c) Adjustment of fair value of Level 3:

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

Group and Bank	Jun 30, 2023 EUR '000	Jun 30, 2022 EUR '000
Balance as at 1 January	3,030	2,173
New loan	30,000	-
Increase/decrease in fair value through profit or loss	(2,670)	1,280
Net foreign exchange	(87)	235
Sale of mezzanine loans	-	(359)
Balance as of 30 June	30,273	3,329

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

Group and Bank	Jun 30, 2023 EUR '000	Jun 30, 2022 EUR '000
Balance as at 1 January	261	289
Increase/decrease in fair value through other comprehensive income	2	(6)
Principal due date	(7)	-
Net foreign exchange	-	1
Accrued interest	(2)	(9)
Balance as of 30 June	254	275

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

for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

25. Reporting by segments

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

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

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

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

Business segments:

The Group has following business segments:

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

25. Reporting by segments (continued)

Jan 1 – Jun 30, 2023	Banking activities EUR '000	Insurance activities EUR '000	Other activities EUR '000	Unallocated EUR '000	Total EUR '000
Net interest income	31,863	107	-	-	31,970
Net fee income	2,211	-	148	-	2,359
Impairment gain	9,137	-	4	-	9,141
Income from insurance contracts	-	1,291	-	-	1,291
Other income	940	4	23	(21)	946
Income from operating activities	44,151	1,402	175	(21)	45,707
Operating costs	(11,986)	(363)	(152)	21	(12,480)
Impairment gains and provisions	-	-	-	-	-
Net income/(expenses) from financial operations	(2,710)	-	-	-	(2,710)
Expenses for insured cases	-	-	-	-	-
Net change in provisions	-	-	-	-	-
Other expenses	-	(739)	-	-	(739)
Operating expenses	(14,696)	(1,102)	(152)	21	(15,929)
Profit before income tax	29,455	300	23	-	29,778
Income tax	-	-	-	-	-
Profit for the year	29,455	300	23	-	29,778
30 June 2023					
Assets of segment	3,906,173	10,562	195	(7,519)	3,909,411
Total assets	3,906,173	10,562	195	(7,519)	3,909,411
Liabilities of segment	2,454,846	2,771	31	(4)	2,457,644
Total equity	1,451,327	160	124	156	1,451,767
Total liabilities and total equity	3,906,173	2,931	155	152	3,909,411

Intra-group transactions are presented under "Unallocated".

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

25. Reporting by segments (continued)

	Banking activities EUR '000	Insurance activities EUR '000	Other activities EUR '000	Unallocated EUR '000	Total EUR '000
Jan 1 – Jun 30, 2022					
Net interest income	33,007	85	-	-	33,092
Net fee income	1,398	118	132	-	1,648
Net income/(expenses) from financial operations	2,384	7	-	-	2,391
Impairment gains and provisions	25,516	-	5	-	25,521
Net premiums earned	-	678	-	-	678
Other income	1,020	6	19	(20)	1,025
Income from operating activities	63,325	894	156	(20)	64,355
Operating costs	(14,107)	(449)	(117)	20	(14,653)
Impairment loss and provisions	-	(8)	-	-	(8)
Expenses for insured cases	-	(447)	-	-	(447)
Net change in provisions	-	160	-	-	160
Other expenses	-	(50)	-	-	(50)
Operating expenses	(14,107)	(794)	(117)	20	(14,998)
Profit before income tax	49,218	100	39	-	49,357
Income tax	-	-	-	-	-
Profit for the year	49,218	100	39	-	49,357
31 December 2022					
Assets of segment	3,853,249	11,058	158	(7,519)	3,856,946
Total assets	3,853,249	11,058	158	(7,519)	3,856,946
Liabilities of segment	2,431,708	3,091	23	(4)	2,434,818
Total equity	1,421,541	280	101	206	1,422,128
Total liabilities and total equity	3,853,249	3,371	124	202	3,856,946

Intra-group transactions are presented under "Unallocated".

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Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January – 30 June 2023 (continued)

(All amounts are expressed in thousands of Euros)

26. 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 30 June 2023 and 31 December 2022.

	30 June 2023 EUR '000	Group 31 December 2022 EUR '000	30 June 2023 EUR '000	Bank 31 December 2022 EUR '000
Total regulatory capital	1,444,420	1,414,926	1,444,203	1,414,566
Credit risk weighted exposure amount	2,370,660	2,269,351	2,368,369	2,267,241
Capital requirements for operating risk	124,005	124,005	120,678	120,677
Capital requirements for currency risk	-	63,100	-	60,097
Total capital requirements	2,494,665	2,456,456	2,489,047	2,448,015
Capital adequacy ratio	% 57.90	% 57.60	% 58.02	% 57.78
	EUR '000	EUR '000	EUR '000	EUR '000
Own funds needed for ensuring capital adequacy according to regulatory requirements	299,360	294,775	198,686	293,762

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

(All amounts are expressed in thousands of Euros)

	30 Jun, 2023 EUR '000	30 Jun, 2022 EUR '000
Income from insurance contracts	1,439	-
Premium earned		
Gross premium written	-	1,292
Premium impairment allowance originated and reserved on collection	-	(10)
Gross outward reinsurance premium	-	(548)
Net premium written	-	734
Changes in the gross unearned premium reserve	-	(42)
Changes in the gross unearned premium reserve, reinsurer's share	-	(15)
Net premium earned	-	677
Fee and commission income	-	250
Net investment income	107	92
Other operating income	9	4
Net income	1,555	1,023
Expenses from insurance contracts	(739)	-
Gross expense for returned premiums	-	(87)
Reinsurer's share	-	37
Gross reserve for returned premiums	-	(24)
Reinsurer's share	-	(6)
Net expense and reserve for returned premiums	-	(80)
Claims incurred	-	(680)
Claims incurred, reinsurer's share	-	233
Change in the claims provision	-	304
Change in the claims provision, reinsurer's share	-	(115)
Net claims incurred	-	(258)
Marketing and provision expenses	(493)	(48)
Administrative expenses	-	(495)
Other operating expenses	-	(5)
Net exchange differences other than those on financial instruments	-	1
Profit before income tax	323	138
Income tax	-	-
Profit for the year	323	138
Other comprehensive income	-	-
Items that are not transferred subsequently to profit or loss:	-	-
Total items that are not transferred subsequently to profit or loss	-	-
Items that may be reclassified subsequently to profit or loss:		
Gains on revaluation of financial assets available for sale	20	1
Decrease in the fair value of financial assets available for sale	(86)	(775)
Transfer of realized gains on asset available for sale to profit or loss	-	-
Deferred tax	12	135
Total items that may be reclassified subsequently to profit or loss:	(54)	(639)
Other comprehensive income after income tax	(54)	(639)
Total comprehensive income after income tax	269	(501)
Attributable to:		
Equity holder of the parent	269	(501)

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

(All amounts are expressed in thousands of Euros)

	Jun 30, 2023 EUR '000	Dec 31, 2022 EUR '000
Assets		
Non-current assets		
Property and equipment	58	71
Intangible assets	106	75
Deferred tax assets	182	156
Total non-current assets	346	302
Current assets		
Investments available for sale	6,185	6,258
Deposits with banks	2,094	2,997
Receivables from insurance operations	1,065	765
Other receivables	74	107
Cash and cash equivalents	923	717
Total current assets	10,341	10,844
Total assets	10,687	11,146
Equity and liabilities		
Equity		
Share capital	7,632	7,632
Retained earnings and reserves	679	669
Other reserves	(745)	(700)
Profit for the year	323	436
Total equity	7,889	8,037
Technical provisions		
Liabilities for remaining coverage	1,223	-
Liabilities for incurred claims	1,401	-
Gross technical provisions	-	2,876
Technical provisions, reinsurer's share	-	(1,203)
	2,624	1,673
Current liabilities		
Liabilities from insurance operations	-	1,129
Other liabilities	174	307
Total liabilities	174	1,436
Total equity and liabilities	10,687	11,146

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

(All amounts are expressed in thousands of Euros)

	30 Jun, 2023 EUR '000	30 Jun, 2022 EUR '000
Operating activities		
Profit before income tax	323	140
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>		
Depreciation	23	24
Impairment gains/(loss) and provisions	(4)	13
Income tax	-	-
Accrued interest	(16)	-
Other	-	-
<i>Operating profit before working capital changes</i>	<i>326</i>	<i>177</i>
Changes in operating assets and liabilities:		
Net decrease in deposits with other banks, before impairment	920	-
Decrease of discount in assets available for sale and assets held to maturity	6	6
Premium receivables	(469)	(369)
Net (increase) in other assets	(6)	(32)
Net decrease of assets and liabilities from insurance operations	-	546
Net (decrease) in technical provisions	(516)	(104)
Net increase/(decrease) in other liabilities	7	(69)
Net cash provided from operating activities	268	155
Investment activities		
Net purchase of property, plant and equipment and intangible assets	(109)	(7)
Net cash (used in) investment activities	(109)	(7)
Financing activities		
Net increase in founder's capital	-	(8)
Net cash (used in) financing activities	-	(8)
Effect of foreign currency to cash and cash equivalents		
Net foreign exchange	-	-
Net effect	-	-
Net increase in cash and cash equivalents	159	140
Balance as of 1 January	717	447
Net increase in cash	159	140
Balance as of 30 June	876	587

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

(All amounts are expressed in thousands of Euros)

	Share capital EUR '000	Retained earnings and reserves EUR '000	Other reserves EUR '000	Profit/(loss) for the period EUR '000	Total equity attributable to the equity holders of the Company EUR '000	Total equity EUR '000
Balance as of 1 January 2022	4,977	523	350	146	5,996	5,996
Profit for the period	-	-	-	138	138	138
Other comprehensive income/loss	-	-	(639)	-	(639)	(639)
Total comprehensive income	-	-	(639)	138	(501)	(501)
Transfer of profit 2021 to retained earnings	-	146	-	(146)	-	-
Balance as of 30 June 2022	4,977	669	(289)	138	5,495	5,495
Balance as of 1 January 2023	7,632	669	(700)	436	8,037	8,037
Profit for the period	-	-	-	323	323	323
Other comprehensive income	-	-	(54)	-	(54)	(54)
Total comprehensive income	-	-	(54)	323	269	269
Transfer of profit 2022 to retained earnings	-	436	-	(436)	-	-
Other adjustments	-	(426)	9	-	(417)	(417)
Balance as of 30 June 2023	7,632	679	(745)	323	7,889	7,889

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