Annual report

OF THE CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT GROUP

for 2024



HBOR

CROATIAN BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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STATEMENT OF PERSONS RESPONSIBLE FOR THE PREPARATION OF THE ANNUAL REPORT

To the best of our knowledge, the 2024 Annual Report contains the truthful representation of developments, business results and position of the Croatian Bank for Reconstruction and Development and the Croatian Bank for Reconstruction and Development Group as well as the description of the most significant risks and contingencies, to which the Croatian Bank for Reconstruction and Development and the Croatian Bank for Reconstruction and Development Group are exposed.



President of the
Management Board
Hrvoje Čuvalo, MSc



Member of the
Management Board
Alan Herjavec, MSc



Member of the
Management Board
Josip Pavković

Zagreb, 27 March 2025

MANAGEMENT REPORT FOR 2024

The Annual Report includes the summary of financial information, description of operations and audited Annual Financial Statements with the Independent Auditor's Report for the year ended 31 December 2024. The Audited Financial Statements are shown for the Croatian Bank for Reconstruction and Development Group and the Croatian Bank for Reconstruction and Development.

Legal status

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

Establishment

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

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

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

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

	2022	2023	2024
Total assets	3,853.25	4,018.68	3,995.91
Gross loans	3,703.40	4,077.56	4,013.43
Total equity	1,421.54	1,457.52	1,503.50
Total income	90.53	102.32	128.67
Total expense	(65.82)	(72.48)	(88.77)
Profit	24.71	29.84	39.90
Interest income calculated on the basis of effective interest rate method and income from the cancellation of subsidy deferral at the expense of HBOR's operations	83.33	94.63	122.30
Interest expense	(21.02)	(28.27)	(47.30)
Net interest income	62.31	66.36	75.00

* Amounts in HRK for 2022 have been converted into euros at the middle exchange rate as at 31 December 2022 (7.5345)

Credit rating as at 31 December 2024

A- (positive outlook) by Standard & Poor's

Regional offices

Regional office for Northern Dalmatia
Regional office for Central and South Dalmatia
Regional office for Istria
Regional office for Lika
Regional office for Primorje and Gorski Kotar
Regional office for Northwestern Croatia
Regional office for Slavonia and Baranja

Number of employees

On 31 December 2024, there were 446 employees at HBOR.
On 31 December 2024, there were 466 employees at HBOR Group.

Exchange rate

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

31 December 2024	EUR 1 = USD 1.0444
31 December 2023	EUR 1 = USD 1.10500

STATEMENT ON THE CODE OF CORPORATE GOVERNANCE APPLICATION

Croatian Bank for Reconstruction and Development (HBOR)

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

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

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



Krk Bridge

The Code of Conduct of HBOR prescribes specific values and rules for the prevention of corruption and assurance of professional conduct, and provides for the possibility of filing a report on the grounds of violation of the Code.

The new HBOR's Code of Ethics, which came into force on 2 October 2024 and superseded HBOR's Code of Conduct, prescribes HBOR's core values as well as certain areas that are particularly important in HBOR's operations, for which the principles of conduct when making decisions are established, and provides for the possibility of filing a report on the grounds of violation of HBOR's Code of Ethics.

The report form, the e-mail address for filing reports and the description of the filing are available on HBOR's website.

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

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

The **Supervisory Board** determines the principles of HBOR's operating policy and strategy, supervises the business activities of HBOR, adopts the Annual Financial Statements, examines the Internal Audit reports and reports drafted by external independent auditors and by the State Audit Office, adopts documents within its jurisdiction, decides in cases placed under its jurisdiction by the Act or the By-laws and gives its consent to the decisions made by the Management Board in accordance with the By-laws. The Supervisory Board also monitors and controls the legality of the business activities of the Management Board and appoints and dismisses the President and the Members of the Management Board. In accordance with the Act, the Supervisory Board consists of ten members: six ministers in the Government of the Republic of Croatia, three Members of Parliament, and the President of the Croatian Chamber of Economy.

In 2024, the Members of the **Supervisory Board** were as follows:

- **Marko Primorac**, PhD, Minister of Finance, President of the Supervisory Board
- **Damir Habijan**, Minister of the Economy and Sustainable Development, Deputy President of the Supervisory Board (in office from 11 January 2024 to 28 August 2024)
- **Ante Šušnjar,** Minister of the Economy, Deputy President of the Supervisory Board (in office since 29 August 2024)
- **Nikolina Brnjac**, PhD, Minister of Tourism and Sport (in office until 28 August 2024)
- **Branko Bačić**, Minister of Physical Planning, Construction and State Assets
- **Šime Erlić**, Minister of Regional Development and EU Funds
- **Josip Dabro**, Minister of Agriculture, Forestry and Fisheries (in office since 29 August 2024)
- **Marija Vučković**, MSc, Minister of Agriculture (in office until 28 August 2024), Minister of Environmental Protection and Green Transition (in office since 29 August 2024)
- **Luka Burilović**, PhD, President of the Croatian Chamber of Economy
- **Žarko Tušek**, Member of the Croatian Parliament (in office until 11 July 2024)
- **Branka Juričev Martinčev**, Member of the Croatian Parliament (in office since 12 July 2024)
- **Predrag Štromar,** Member of the Croatian Parliament
- **Siniša Hajdaš Dončić,** PhD, Member of the Croatian Parliament (in office until 11 July 2024)
- **Boris Piližota**, Member of the Croatian Parliament (in office since 12 July 2024)

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

Members of the Management Board of HBOR in 2024:

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

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

In 2024, Members of the Audit Committee of HBOR were:

- **Lajoš Žager**, Prof DSc, Full Professor, Department of Accounting, Faculty of Economics and Business of the University of Zagreb, Chairman of the Audit Committee
- **Predrag Štromar**, Chairman of the Physical Planning and Construction Committee of the Croatian Parliament, Member of the Audit Committee,
- **Boris Tušek**, Prof DSc, Full Professor, Department of Accounting, Faculty of Economics and Business of the University of Zagreb, Member and Deputy Chairman of the Audit Committee.

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

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

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

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

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

- Compliance monitoring function,
- Risk management function,
- Internal audit function and
- Actuarial function.

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

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

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

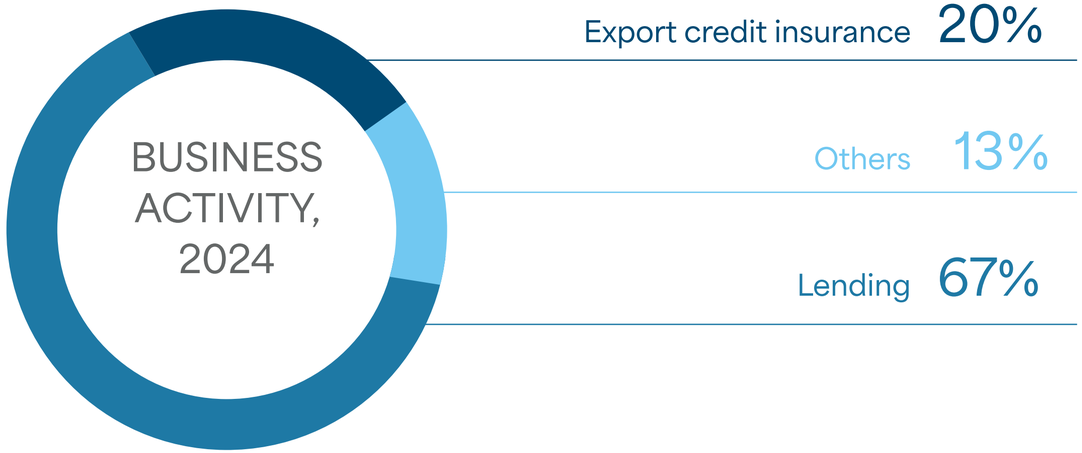
In its operations, HKO voluntarily applies the principles of the Corporate Governance Code that have been prepared by the Croatian Financial Services Supervisory Agency (HANFA) and Zagrebačka burza d.d. (Zagreb Stock Exchange) to the extent adequate to the size and development status of the Company.

This Statement is considered to be part of the Annual Report of the HBOR Group for the period 1 January to 31 December 2024.

DESCRIPTION OF OPERATIONS OF HBOR GROUP IN 2024

OPERATIONS OF CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

In 2024, HBOR financially supported more than 3 thousand placements in a total amount exceeding EUR 1.17 billion.



HBOR's operations in 2024 were marked by the continuation of initiatives started in previous years and by the launch of new ones. Under various financial instruments from EU funds, its own loan programmes and export credit insurance programmes as well as by supporting the equity investment market, the activities during the reporting year confirmed HBOR's continued commitment to supporting the development of the Croatian economy and to adapting its terms and conditions to market needs.

In accordance with HBOR's 2020-2024 Business Strategy, HBOR endeavoured to achieve positive impacts on the economy and society through its activities, with a special attention paid to development of equity and quasi-equity market, economically and socially balanced regional, rural and urban development of the Republic of Croatia, internationalisation and globalisation of the Croatian economy, increasing the competitiveness of the economy by emphasising innovation, digital transformation and Industry 4.0, and promoting a climate- and energy-neutral economy through investments in energy efficiency, renewable energy sources and environmental protection.

A special focus was on filling market gaps by providing financial support to those segments of the economy that the private sector

could not adequately support or that required additional support from HBOR.

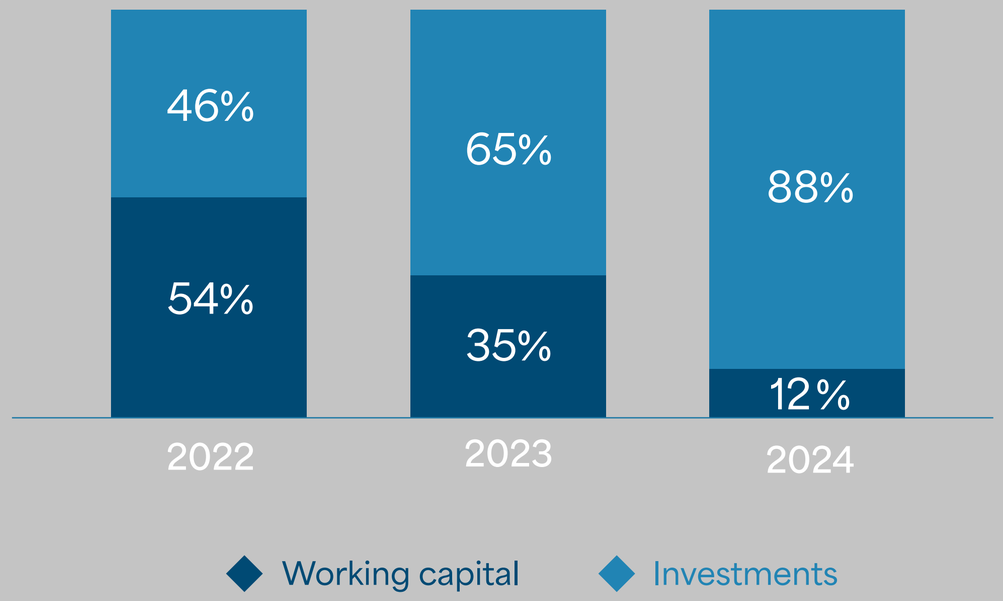
By strengthening cooperation with ministries, local and regional government units, domestic and international financial institutions and associations as well as other stakeholders, HBOR ensured the mobilisation of the necessary resources and know-how, enabling the further development of activities aimed at supporting the development of the Croatian economy.

In 2024, under the National Recovery and Resilience Plan, HBOR continued to implement the loan programme for small and medium-sized enterprises that have difficult access to finance, the interest subsidy programme and the programme of issuing guarantees for investment projects of mid-cap and large business entities in order to promote digitalisation and green transition as well as a climate- and energy-neutral economy. HBOR approved EUR 257 million in investment loans for digital and green transition in 2024.

With an objective of promoting the competitiveness of the Croatian economy, the private sector was supported by EUR 548 million in investments and working capital, with more than 67% of the funds intended for micro, small and medium-sized enterprises.

In 2024, a continued positive trend in the structure of approved loans was recorded. Thus, in the reporting year, 88% of funds were approved for investments.

BREAKDOWN OF LOANS APPROVED BY PURPOSE



During the reporting year, HBOR continued to support Croatian exporters by export finance and export credit insurance activities, with the total value of approved funds amounting to EUR 465 million. In this way, HBOR further strengthened the competitiveness and market position of Croatian entrepreneurs in the global market.

In 2024, the European Commission completed the Pillar Assessment procedure of HBOR, which confirmed that HBOR operated in accordance with the highest standards and enabled it to manage EU funds directly.

Consequently, HBOR submitted an application for direct guarantees under the InvestEU Fund in 2024 for the development of new financial products and investments, and the negotiations with the European Commission are still ongoing.

At the end of 2024, the Supervisory Board adopted the new HBOR's Business Strategy for the 2025-2029 period, which laid the foundations for the further development of the bank and for the strengthening of its role in the economy.



Krk Bridge

ACTIVE MEASURES AND PRODUCTS INTRODUCED

In the reporting period, as part of new financial instruments for the 2021-2027 programme period, two loan programmes were introduced, which were developed in cooperation with the Ministry of Regional Development and EU Funds as the Managing Authority, under the names: **“Urban Development Fund”** and **“Sustainable Tourism Loans”**.

These loan programmes are based on the new finance model that enables direct lending to borrowers with the possibility of a write-off of a part of loan principal. Individual loans are contracted and disbursed to the borrowers from the funds of the **European Regional Development Fund (ERDF)** under the **2021-2027 Competitiveness and Cohesion Programme** and from HBOR’s funds in a **50:50** ratio.



Youth Bridge - Osijek

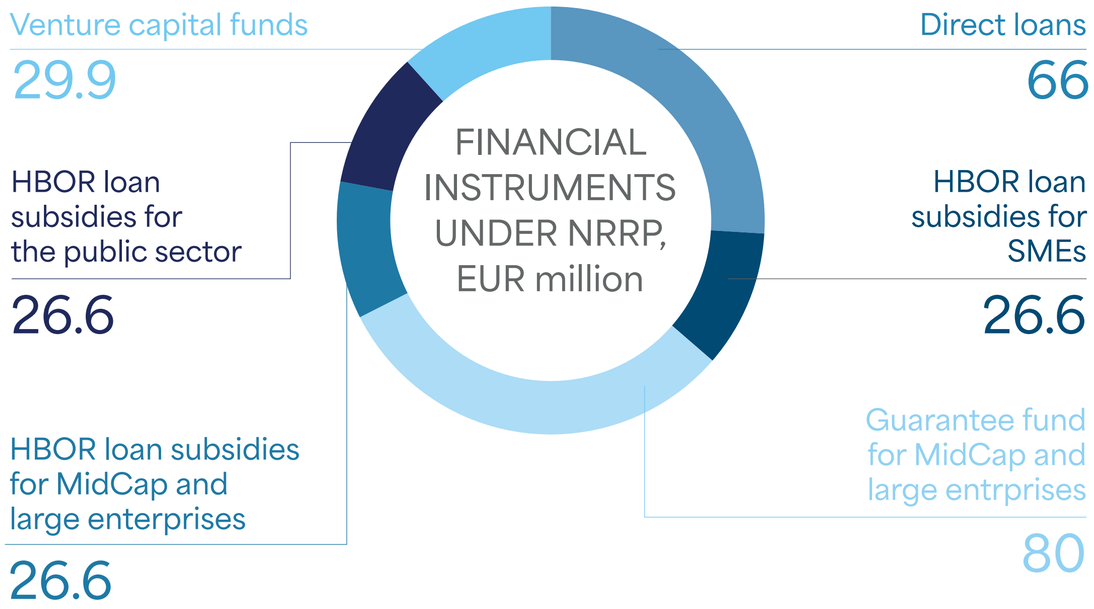
Such a lending model offers to the borrowers favourable loan terms and conditions as well as further benefits as follows:

- **Capital discount**: write-off of a part of loan principal after fulfilment of pre-defined criteria. Depending on the fulfilment of set conditions, it is possible to write off up to 50% of the loan principal, whereby the write-off relates to the part of the loan financed from ERDF funds.
- **Interest-free part of loan from ERDF funds**: 0.00 percent interest rate is charged to the borrower, whereas a fixed interest rate determined on the basis of risk assessment is charged on the part of the loan financed from HBOR's funds.
- **No fees charged**: the part of the loan financed from ERDF funds is exempt from the charge of all usual fees, whereas loan application processing fee and commitment fee are not charged on the part of the loan financed from HBOR's funds.

During 2024, HBOR was preparing the third loan programme: **"Production Modernisation Loans"** that was launched at the beginning of 2025 to further encourage investments in the upgrading of production capacities.

NATIONAL RECOVERY AND RESILIENCE PLAN

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



When developing financial instruments, beside the goals of the RRF, the goals of HBOR defined in HBOR's 2020 – 2024 Business Strategy were taken into account. The implementation of financial instruments enabled favourable financing of new private and public sector investments aimed at strengthening the competitiveness and resilience of the economy, as well as the transition towards a green and digital economy, as the basis of the long-term competitiveness of economic entities in the future.

Under the NRRP, HBOR was entrusted with the implementation of six financial instruments with a total value of EUR 256 million:

- Financial instrument of HBOR's direct loans above EUR 100,000 for micro, small and medium-sized business entities totalling EUR 66 million,
- Financial instrument of Interest Subsidy Fund for loans to micro, small and medium-sized business entities totalling EUR 26.6 million,
- Financial instrument of Interest Subsidy Fund for loans to entities of medium market capitalisation and large business entities totalling EUR 26.6 million,
- Financial instrument of Interest Subsidy Fund for loans to public sector entities totalling EUR 26.6 million,
- Financial instrument of Guarantee Fund for loans to entities of medium market capitalisation and large business entities totalling EUR 80 million, and
- Financial instrument for investing in equity and quasi-equity finance instruments totalling EUR 29.9 million.

Direct loans under the programme Special SME Segments Investment under the NRRP

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

By implementing the respective financial instrument, with the support of the RRF funds, HBOR approved direct investment loans in the amounts ranging from EUR 100 thousand to EUR 1 million at interest rates of 0.4 percent or 0.8 percent. The implementation of the financial instrument lasted until the end of July 2024. From the beginning of implementation until the end of 2024, altogether 202 loans were approved totalling EUR 58 million.

Financial instruments of interest subsidies for the private and public sectors

Throughout most of 2024, three financial instruments of interest subsidies were implemented enabling more favourable terms and conditions for financing investments of micro, small and medium-sized business entities, entities of medium market capitalisation, large business entities and public sector entities.

Interest subsidy was granted for investment loans aimed at investments in strengthening competitiveness and resilience and at investments in green and digital technologies necessary for the long-term sustainable development of the public and private sectors.

The interest subsidy amount per individual loan was limited to EUR 500 thousand for small and medium-sized enterprises and EUR 1 million for other entities, so that as many borrowers as possible could benefit from such favourable terms and conditions. A subsidy of up to 3 percentage points was granted depending on the purpose and type of investment, and it could reach:

- Up to 75 percent of the interest rate charged on investments in green and digital transition,
- Up to 65 percent of the interest rate charged on investments in special areas of the Republic of Croatia or in research, development and innovation, and on investments of the public sector to mitigate the consequences of the earthquake,
- Up to 50 percent of the interest rate charged on other investments in competitiveness and resilience.

Interest subsidies were approved under HBOR's loan programmes in the form of direct loans and loans via commercial banks. Towards the end of 2023, cooperation agreements were signed with 5 leasing companies for the subsidising of interest through financial and operational leasing, the operational implementation of which started in 2024.

From the beginning of implementation until the current disbursement status, altogether 234 loans were approved totalling EUR 584.3 million under all three financial instruments.

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

In the Republic of Croatia, there have been various guarantee schemes for investment support to micro, small and medium enterprises for many years. To provide similar support to mid-caps and large business entities, a new model of guarantees for investment loans of these entities has been established under the National Recovery and Resilience Plan.

The implementation of the instrument started in 2023. It enables the issuance of guarantees for investment loans to entities of medium market capitalisation and large business entities with a coverage of up to 80 percent of overdue loan principal and subsidisation of up to 100 percent of the amount of the guarantee fee, depending on the state aid rules.

In 2023, HBOR reported to the European Commission the amendments to the Methodology for Determining Guarantee Fees, and received a favourable Decision of the European Commission regarding the amendments on 18 December 2023.

In 2023, the first guarantee for a loan in the amount of EUR 289 thousand was issued with 80% coverage. In 2024, nineteen guarantees for loans totalling EUR 65 million were issued, which encouraged investments in excess of EUR 217 million.

Promoting the development of new venture capital funds

Traditional sources cannot always adequately respond to the financial needs of fast-growing high-risk companies. For this reason, under the NRRP, funds are provided for further strengthening of small and medium-sized enterprises through equity and quasi-equity investments with the aim of developing business ideas in the Republic of Croatia. During 2024, activities aimed at investing funds and launching new venture capital funds continued. At the end of 2024, a public call for the selection of a venture capital fund management company was published, and the selection process is expected to be completed in 2025.

Do No Significant Harm principle

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

CONTINUED REGIONAL PRESENCE AND COOPERATION WITH LRGUs

In cooperation with counties, cities and municipalities, HBOR actively supported the regional and social development of the Republic of Croatia in the total amount of EUR 379 million by financing infrastructure projects in the public sector and by supporting the private sector through investments and working capital, especially in underdeveloped areas of Croatia.

In 2024, HBOR also actively cooperated with counties, cities and municipalities through its regional offices in Pula, Rijeka, Osijek, Varaždin, Gospić, Zadar and Split with an objective of better informing entrepreneurs about the possibilities of using HBOR's products in all regions of the Republic of Croatia. In December 2024, the Regional Office for Central Croatia was established in Zagreb, which would cover the areas of Zagreb County, Bjelovar-Bilogora County and Sisak-Moslavina County.

INTEREST RATE SUBSIDY IN INDIVIDUAL COUNTIES, MUNICIPALITIES AND CITIES

In 2024, HBOR continued to contribute to the achievement of balanced regional development in cooperation with individual counties, cities and municipalities through subsidising interest rates on HBOR's loans.

Pursuant to business cooperation agreements concluded between HBOR and counties, cities and municipalities, entrepreneurs can make use of interest rate subsidies on HBOR's loans funded by counties, municipalities or cities.

By the end of 2024, HBOR realised the cooperation with 44 units of local and regional government – LRGUs.

COOPERATION WITH HAMAG-BICRO

In July 2024, in cooperation with HAMAG-BICRO, the implementation started of the PLUS National Guarantee Programme and the interest rate subsidy under the NRRP intended for small and medium-sized entrepreneurs for financing investments and working capital. This enabled micro, small and medium-sized entrepreneurs without sufficient own collateral to access favourable finance.

In addition, in 2024, cooperation continued under the guarantee programme: ESIF individual guarantees for rural development intended for easier access to finance of micro, small and medium entities of small businesses in the agricultural, processing and forestry sectors.

EU PROGRAMMES AND INITIATIVES

FINANCIAL INSTRUMENTS

The successful implementation of financial instruments in the previous 2014-2020 financial period resulted in entrusting HBOR with the implementation of new financial instruments in the 2021-2027 programme period.

EU funds in the 2021-2027 financial period are planned to be used under the financial instruments to be implemented through HBOR and commercial banks. A novelty in the 2021-2027 period relates to the possibility of combining financial instruments with grants in the form of a write-off of a part of loan principal (capital discount).

In 2024, HBOR began implementing two new financial instruments: the “Urban Development Fund” and the “Sustainable Tourism Loans” for financing investment projects in the public and private sectors.

In April 2024, HBOR signed a Finance Agreement with the Ministry of Regional Development and EU Funds for the implementation of the financial instrument: “Loans for Energy Efficiency of Entrepreneurs”.

Furthermore, in November 2024, HBOR signed a Finance Agreement with the Ministry of Regional Development and EU Funds and developed the fourth financial instrument: “Production Modernisation Loans” to a high stage of readiness for production planned to begin in early 2025.



Maslenica Bridge

Urban Development Fund

The “Urban Development Fund” financial instrument is intended for public sector stakeholders for capital investments in public and business infrastructure with social and commercial facilities (commercial-public infrastructure) that generates revenue from service charges. These are long-term loans with repayment periods of up to 15 years that can amount to up to EUR 10 million. Loans are approved directly, through HBOR, from ERDF’s funds and HBOR’s funds in a 50:50 ratio with the possibility of writing off a part of the ERDF’s loan principal upon the fulfilment of predefined criteria (up to 50% of the total loan principal amount disbursed).

Borrowers can exercise the right to a write-off of a part of loan principal upon the fulfilment of the capital discount criteria in three categories: sustainability, aesthetics and inclusiveness:

- Sustainability criterion includes investment elements such as: green areas, green roofs, annual primary energy below permitted threshold, renewable energy sources.
- Aesthetics criterion implies that the basis for the preparation of the project design/technical documentation financed under this financial instrument is the result of the work (conceptual urban planning and architectural design) that won the first, the second or the third place in the respective tender.
- Inclusiveness criterion means that the borrower included local stakeholders (citizens and/or associations, and/or entrepreneurs, and/or other institutions) in joint deciding on the project proposal.

Sustainable Tourism Loans

The “Sustainable Tourism Loans” financial instrument is intended for private sector entities, to be precise for micro, small and medium-sized enterprises. The loans are intended for the financing of sustainable investments that contribute to green transition goals, quality of tourism products and services, higher growth and competitiveness, and that result in diversification of tourism offer, extension of tourism season, reduction of excessive tourism, sustainable business and generally higher quality of tourism offer. These are long-term investment loans with repayment periods of up to 17 years that can amount to up to EUR 7 million. Loans are approved directly, through HBOR, from ERDF’s funds and HBOR’s funds in a 50:50 ratio with the possibility of writing off a part of the ERDF’s loan principal upon the fulfilment of predefined criteria (up to 50% of the total loan principal amount disbursed).

Borrowers can exercise the right to a write-off of a part of loan principal upon the fulfilment of the capital discount criteria that include as follows:

- Investment leads to an upgrade in energy efficiency level
- Investment meets Tourism Development Index categories
- Upon the completion of project implementation in accommodation hospitality facilities classified by type and/or category, investment result is the obtaining of a new Resolution
- Investment in new additional or optional facilities and/or investment in the expansion and/or improvement (reconstruction/renewal) of existing additional or optional facilities that are created for the purpose of providing other services within a hospitality accommodation establishment of a minimum 3-stars category in the “Hotels” group and in the “Camping sites” group by investment value.

Loans for Energy Efficiency of Entrepreneurs

The “Loans for Energy Efficiency of Entrepreneurs” financial instrument is intended for those entrepreneurs, regardless of their legal form, size or ownership structure, who have been registered for the performance of eligible activities in the manufacturing industry and the commercial and service industry at least one year before submitting the loan application.

Investments related to the achievement of energy savings and/or the use of renewable energy sources as well as the financing of accompanying activities are eligible for financing.

Loans will be approved via commercial banks, selected in the public procurement process, from ERDF’s funds and commercial banks’ funds in a 50:50 ratio with the possibility of writing off a part of the ERDF’s loan principal upon the fulfilment of predefined criteria (up to 50% of the total loan principal amount disbursed).

Production Modernisation Loans

The “Production Modernisation Loans” financial instrument is intended for micro, small and medium-sized enterprises registered for the performance of activities in the processing industry.

Investments aimed at modernising and digitalising operations, introducing new technologies and products, and increasing capacity are eligible for financing.

The loans are long-term loans with repayment periods of up to 14 years that can amount to up to EUR 3 million. Loans will be approved directly, through HBOR, from ERDF’s funds and HBOR’s funds in a 50:50 ratio with the possibility of writing off a part of the ERDF’s loan principal upon the fulfilment of predefined criteria (up to 50% of the total loan principal amount disbursed).

REORIENT HBOR's ACTIVITIES TOWARDS SUSTAINABLE FINANCING AND GREEN TRANSITION

After the closing of the sustainable finance project called: *DG REFORM TSI 2021: Reorient Croatian Development Bank's (HBOR) Operations Towards Sustainable Financing* and *Green Transition* and the establishment of sustainability related internal governance structure, the activities to align, govern and report on significant sustainability impacts, risks and opportunities intensified in 2024. The recommended activities were carried out in the area of five main activity groups: portfolio analysis, incorporation of climate risks, adjustment to sustainability reporting requirements, adoption of strategic framework and continuation of developing internal professional capacities.

During the reporting year, the Sustainable Finance Committee was established. The main role of the Committee is continuous development of sustainable finance at HBOR and harmonisation with regulatory requirements in the area of sustainable finance with an objective of facilitating the financing of the transition to a climate-neutral and sustainable economy.



Ždrelac Bridge

SUSTAINABILITY REPORTING – ADJUSTMENT TO NEW STANDARDS

HBOR becomes subject to sustainability reporting requirements in accordance with the provisions of the Accounting Act. The transition period, in which HBOR published reports on a voluntary basis, has been used for gradual adjustment to the new sustainability reporting standards. Regular annual 2023 Sustainability Report was published in July 2024. With the aim of a timely transition to the new reporting requirements, the Report was prepared with the parallel application of two reporting frameworks (GRI and ESRS), whereby individual requirements of the new reporting standards (ESRS) were applied.



Maslenica Bridge

DEVELOPMENT OF VENTURE CAPITAL AND PRIVATE EQUITY MARKET

The financial markets in Croatia are predominantly focused on debt financing, lacking the depth and diversity needed to allocate funds efficiently and finance higher-risk projects based on innovation, research and development, start-up projects or generally fast-growing industries that promote productivity.

There is still a relatively small number of venture capital fund management companies in the market that have limited organisational capacities and relatively small assets under management. The market lacks not only management companies but also potential investors in venture capital funds (4 pension funds and, in rare cases, insurance companies and banks), as a result of which almost every fundraising process requires a significant public intervention.

Due to all the above, the role of HBOR as an investor is of particular significance.

In 2024, HBOR continued to encourage the development of the equity and quasi-equity market in order to provide support to companies at all stages of their development. HBOR has participated in a number of initiatives for the development of the venture capital market with the aim of ensuring appropriate sources of finance for the growth of entrepreneurial activities.



Dr. Franjo Tuđman Bridge - Dubrovnik

CROGIP

Under EIF-NPI Equity Platform, in 2019, the EIF and HBOR signed a contract that launched the CROGIP Initiative, on the basis of which they jointly invested funds (EUR 50 million each) in

- Venture capital funds managed by companies selected by the EIF (Adriatic Structured Equity Fund, Prosperus Growth Fund, Croatian Mezzanine Debt Fund and Vesna Deep Tech Venture Fund), and
- Co-investing with the funds that already have an established relationship with the EIF and positive references.

The Adriatic Structured Equity Fund and the Prosperus Growth Fund started operating in 2020 and performed their first investments in 2021. The Croatian Mezzanine Debt Fund started to operate and performed its first investment in 2022. The Vesna Deep Tech Venture Fund started to operate in July 2024 and performed its first investments in the same year.

Through the CROGIP Initiative, altogether 74 investments were carried out by the end of 2024. By 31 December 2024, 48.33 percent of HBOR's investment commitment was utilised for the mentioned investments.

VESNA DEEP TECH VENTURE FUND

Under the CROGIP Initiative, which enabled the establishment of the first regional platform for launching a fund for financing the commercialisation of innovative technological and scientific solutions of Croatian and Slovenian universities, research institutes and centres, the Vesna Deep Tech Venture Fund was launched and began operating in July 2024.

HBOR's partner in this project, beside the EIF, is SID banka d.d. (Slovenska razvojna i izvozna banka d.d.). The technology transfer fund, whose current size is EUR 48.6 million, will have to ensure, among other conditions, that at least EUR 15 million is invested in projects or companies developed at universities, research institutes and centres in the Republic of Croatia.

CROGIP II

In July 2023, the CROGIP II was signed with the EIF, a programme worth EUR 52 million intended for the funds that would invest in fast-growing small and medium-sized companies, small mid-cap and mid-cap companies established and operating in Croatia. HBOR’s share is financed from the Recovery and Resilience Facility under the NextGenerationEU in

accordance with the 2021-2026 National Recovery and Resilience Plan (NRRP).

The programme is not limited to a specific sector, although it will focus on sustainability, green transformation and innovation. At least 25% of the total amount drawn down for investments will be invested in eligible beneficiaries who have been assessed as contributing to the EIF's climate action and environmental sustainability (CA&ES) criteria. The investment programme will also endeavour to support emerging teams established in Croatia that are specifically focused on Croatia.

In accordance with the regulatory framework for the implementation and use of funds, all investments that will be financed from NRRP funds must meet the criteria of the principle of not causing significant harm to the environmental and climate goals of the EU (Do No Significant Harm - DNSH).

Through the selection process, launched at the beginning of 2024, two management companies were selected. At the end of 2024, the EIF and HBOR assumed the obligation to make a contribution to one of the management companies. For the second selected management company, the assumption of contribution obligation is expected in the first half of 2025.

ORDER CONTRACT FOR THE THREE SEAS INITIATIVE INNOVATION FUND

The Ministry of Regional Development and EU Funds and HBOR signed an order contract for the Three Seas Initiative Innovation Fund in December 2024. The Ministry, through HBOR, entrusted the funds to the EIF for the implementation of the “Three Seas Initiative Innovation Fund” financial instrument. The financial instrument would serve to the EIF as one of the sources of funds for investing in alternative investment funds operating in the territory of the Three Seas Initiative member countries, including the Republic of Croatia.

THREE SEAS INITIATIVE INVESTMENT FUND

The Three Seas Initiative, a platform for cooperation among 13 EU member countries in the area of the three seas (the Adriatic, Baltic and Black Seas), was established to support joint cross-border strategic projects with an emphasis on energy, transport and digital connectivity in the region.

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

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

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

ZICER – FRAMEWORK LOAN CONTRACT

In December 2024, HBOR and ZICER (Zagreb Innovation Centre) signed a EUR 500 thousand Framework Loan Contract to provide finance for micro and small start-up entrepreneurs.

This was the first time that HBOR introduced such an innovative finance model specially designed for entrepreneurs in the earliest stages of business development.

The Framework Loan Programme enables entrepreneurial support institutions (ESIs), such as ZICER, to issue loans to start-ups with financing from HBOR's funds and ESI's own funds in equal proportions. Loan repayment risk is also shared proportionally. This Contract is part of a three-year HBOR’s pilot project, through which EUR 1.5 million have been provided.

In the future, it is expected that more ESIs will be interested in this financing model and that they will meet the conditions for participating in the programme, which will further stimulate the development of the entrepreneurial ecosystem in Croatia.

EIF-NPI EQUITY PLATFORM AND OTHER MEMBERSHIPS

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

HBOR is a member of the professional associations the Invest Europe and the European Venture Fund Investors Network (EVFIN). The Invest Europe is a professional, non-profit association that brings together the sector of equity investors, venture capital funds, investment sector and fund managers. It actively contributes to the creation of policies that have an impact on equity investments (directly and through funds) in Europe. At the same time, it provides information on the impact of its members on the EU economy and publishes research on the trends and developments of the venture capital industry. EVFIN is an informal platform for dialogue and cooperation that brings together 23 public investors from 21 European countries. The aim of the platform is to exchange information and best practices among its members and to contribute to the public debate in the EU and to the research of measures to create more sustainable venture capital markets in the EU.

HBOR INVEST CONFERENCE

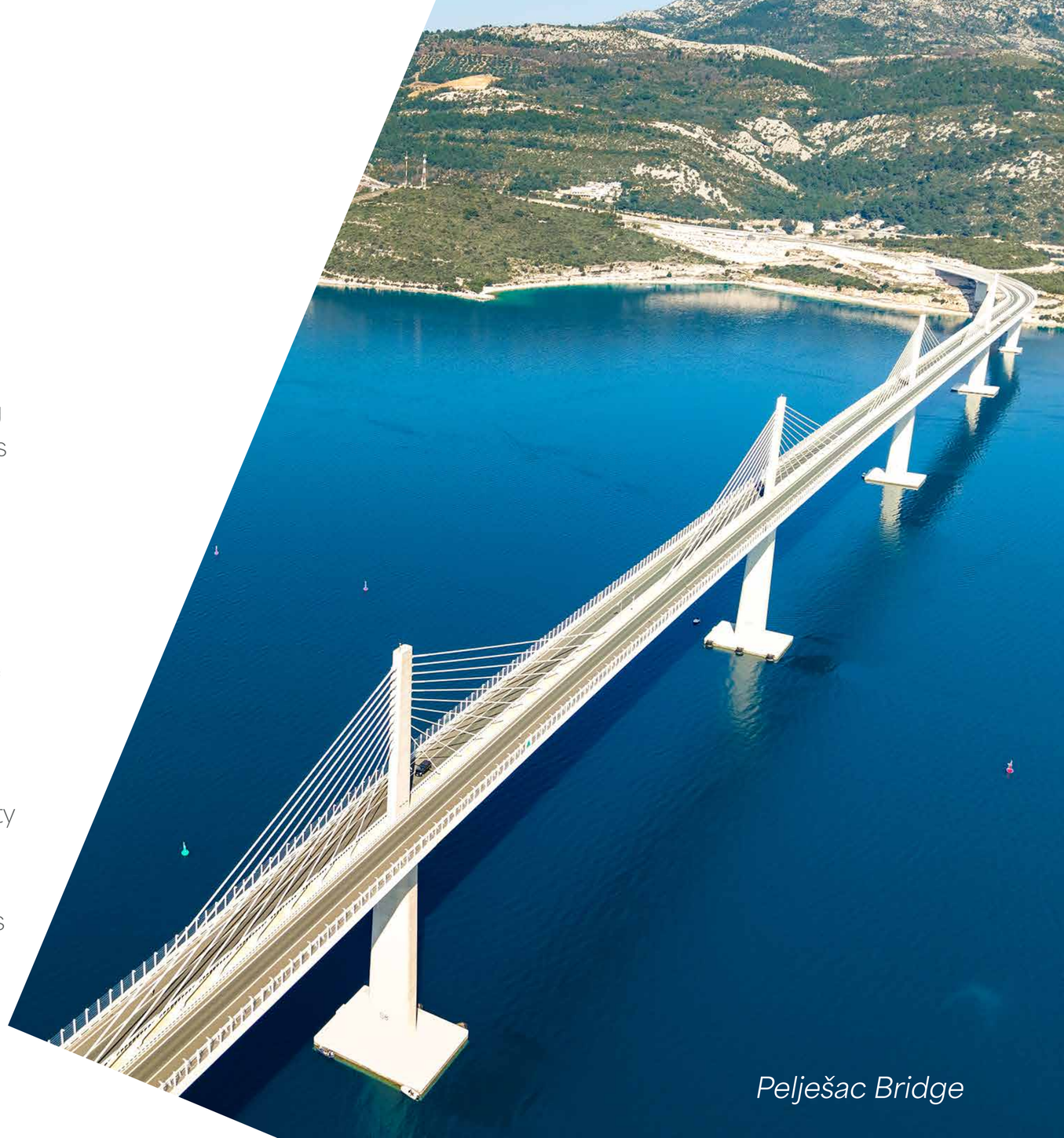
The first HBOR INVEST Conference: “Trends and Perspectives of Private Equity Investments” took place in Zagreb on 28 November 2024. The conference gathered the representatives of private investors, regulators and international and local experts. The goal of the conference was to emphasise the importance of private equity investments for the development of the economy and to highlight the potential of synergy between profitability and corporate social responsibility.

EXPORT CREDIT INSURANCE

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

In addition to regular export project insurance activities, the emphasis in 2024 was also on the implementation of new and improving the existing export credit insurance programmes, as well as on international activities related to the accession of the Republic of Croatia to the OECD (Organisation for Economic Cooperation and Development) and other international activities carried out by HBOR within the framework of working groups under the Council of the EU.

Since after the expiry of the temporary export credit insurance programmes for exporters' liquidity loan portfolio (the COVID-19 and the Ukraine measures) implemented by HBOR based on various temporary frameworks of the European Commission, it was determined that there was still a significant need for exporters' liquidity loans on the market, in the first half of 2024, a new programme of insurance of exporters' liquidity loan portfolio was successfully launched on the market as a regular product with an unlimited duration. Additionally, in 2024, actions were intensified to improve the Performance Related Export Bank Guarantees Insurance Programme, and a new version of the Programme was adopted at the end of the year.



Pelješac Bridge

In 2024, after conducting a market survey and obtaining a study on the development of the export credit insurance market in the Republic of Croatia, and in order to continue the implementation of insurance of short-term temporary non-marketable risks, HBOR submitted a request to the European Commission to obtain a new Exemption Clause[1], so that it could carry out these activities after 31 December 2024. In December 2024, HBOR received a positive decision from the European Commission, which enabled the implementation of insurance of short-term temporary non-marketable risks until 31 December 2030. This enabled HBOR, as a state insurer, to continue to fill the gap in the offer of short-term insurance and reinsurance on the private insurance market in the Republic of Croatia and to provide support to Croatian exporters in this segment as well.

In 2024, under export credit insurance transactions, HBOR insured an export turnover of EUR 234.6 million, which is a decrease of 65 % compared to the record insured export turnover of EUR 671.8 million in 2023. The mentioned decrease is the result of the termination of implementation of temporary insurance programmes that HBOR introduced as measures to help the economy of the Republic of Croatia due to the crises caused by the COVID-19 pandemic and the Russian aggression against Ukraine. It should be mentioned that, of the above amount of the insured turnover in 2023, EUR 478 million was insured under the temporary programmes – the Ukraine measures, which were implemented until 31 December 2023, whereas EUR 198.3 million was insured under the regular export credit insurance programmes. Taking into account only regular export credit insurance programmes, in 2024, there was a rise in insured turnover of 21 % compared to the previous year.

In 2024, through its export credit insurance programmes, HBOR supported exports of Croatian goods and services to 46 countries worldwide.

[1] Decisions of the European Commission on the indisputability of implementation of HBOR's short-term export credit insurance programmes and their compatibility with the principles of the internal market in accordance with Article 107 para-graph 3 sub-paragraph (c) of the Functioning of the European Union, the so-called Exemption Clause for the insurance and reinsurance of short-term export receivables against temporarily non-marketable risks.

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

Description	2022	2023	2024
Insured turnover	376.20	671.77	234.63
Gross exposure as at 31 December	696.35	1,148.24	1,113.80
Insurance premium collected	1.08	6.87	1.99
Indemnities paid	6.62	2.58	0.93
Recoveries from debtors	0.01	0.12	0.35
Guarantee Fund balance available as at 31 December	98.48	118.36	129.79

To convert 2022 HRK amounts to EUR, the middle exchange rate of the Croatian National Bank for EUR at the last day of the year was applied.

GROSS EXPOSURE

As at 31 December 2024, gross exposure of HBOR under the export credit insurance activities stood at EUR 1.1 billion and remained almost unchanged compared to the same day in 2023. The major share in exposure, i.e. 88 %, relates to the exposure under insured placements of banks. Exposure under placements of banks is the result of financing of exporters, their export transactions or issuing of performance-related bank guarantees for the realisation of export transactions of Croatian exporters with HBOR insurance policy.

INSURANCE OF SHORT-TERM EXPORT RECEIVABLES

Under the Programme for the Insurance of Short-Term Export Receivables, HBOR provides cover for short-term receivables of exporters with contracted deferred payment of up to 2 years against non-marketable and temporarily non-marketable risks.

Under the above programme, in 2024, HBOR insured the turnover in the amount of EUR 68.1 million. Most of the support was provided to exporters engaged in the manufacture of pharmaceutical preparations, service activities relating to information technology and computers, printing and wholesale trade. The largest volume of insured export turnover was realised for buyers in Ukraine, Switzerland, Slovenia, Italy and Poland.

INSURANCE OF SHORT-TERM EXPORT RECEIVABLES FOR SMALL EXPORTERS

The Programme for the Insurance of Short-Term Export Receivables for Small Exporters is intended for small and medium-sized enterprises with an annual export turnover of up to EUR 2 million and for those starting the sales of their products and services in the foreign markets. The insurance policies allow exporters to take out insurance in a shorter period of time and with reduced administrative obligations.

In 2024, for this category of exporters, the approved volume of insurance totalled EUR 952.8 thousand. Under the programme, most of the support was provided to exporters engaged in the processing industry, production of machines for special purposes, retail trade and production of electrical equipment for lighting. The largest volume of insured export turnover was realised for buyers in Italy, Great Britain, Bosnia and Herzegovina and France.

REINSURANCE OF SHORT-TERM EXPORT RECEIVABLES

The Programme for the Reinsurance of Short-Term Export Receivables is intended for insurance companies operating in the market of the Republic of Croatia that provide cover for export receivables of Croatian exporters.

Under the Programme for the Reinsurance of Short-Term Export Receivables, in 2024, HBOR reinsured the export turnover in the amount of EUR 10.3 million.

The majority of transactions covered related to the export of pharmaceutical preparations, glass products, wire, chains and springs to buyers in Belarus, Kazakhstan, Slovenia, Bosnia and Herzegovina, and Serbia.

INSURANCE OF SUPPLIER CREDITS AND LOSS DURING PRODUCTION

Under the Programme, in 2024, HBOR insured the turnover in the amount of EUR 41.1 million, and the largest volume of insured amount related to exports to the markets of Cyprus, Romania, Slovakia, Australia and Greece. The insured export transactions related mostly to the export of goods and services in the sectors of energy, manufacturing of electric motors, generators and transformers.

INSURANCE OF BUYER CREDIT

The Programme for the Insurance of Buyer Credit is intended for all exporters in cases where a delay in payment or a financial loan is required by the foreign buyer as a condition for entering into an export transaction

with the exporter, which is most often the case with the export of capital goods, equipment of higher value and similar.

In 2024, under the Programme, HBOR insured the turnover in the amount of EUR 4.3 million. The insured export transaction was performed for the buyer in Bosnia and Herzegovina and related to the manufacturing of machinery for food processing.

INSURANCE OF PRE-EXPORT FINANCE LOANS

The Programme for the Insurance of Pre-Export Finance Loans enables banks to finance working capital for exporters at the stage of export goods production and facilitates access to loans for exporters who would otherwise not be able to obtain loans due to insufficient collateral.

Under the Programme, during 2024, export turnover in the amount of EUR 9.7 million was insured, which related to the insurance of banks' placements to exporters engaged in the production of sugar, lime and other metal products. The Programme for the Insurance of Pre-Export Finance Loans was implemented for insurance applications received in HBOR no later than 1 December 2024.

INSURANCE OF EXPORT PERFORMANCE-RELATED GUARANTEES

Under the Programme, two insurance policies covering bank guarantees were concluded in an amount of EUR 47.2 million that were issued in connection with the performance of exporter’s export contract in the market of Germany.

INSURANCE OF WORKING CAPITAL LOAN PORTFOLIO FOR EXPORTERS

The Programme was adopted at the end of 2019 and is implemented in cooperation with banks to facilitate access to working capital financing for small and medium-sized enterprises and to encourage them to export and enter new export markets. Banks, in accordance with pre-defined programme terms and conditions and insurance costs, independently decide on loans to be included in the portfolio covered by HBOR with 80 percent coverage of the principal and regular interest for each loan.
In 2024, five loans were insured totalling EUR 636 thousand.

PORTFOLIO INSURANCE OF LIQUIDITY LOANS FOR EXPORTERS

The Programme for the Portfolio Insurance of Liquidity Loans for Exporters was introduced at the end of the first half of 2024 and is implemented in cooperation with banks for the purpose of facilitating access to liquidity finance for all exporters and their suppliers, regardless of their size.

In 2024, altogether 47 loans totalling EUR 52.2 million were insured under the programme.

INDEMNITIES PAID

During 2024, six indemnities were paid totalling EUR 931.3 thousand. Of the number of paid indemnities, two indemnities totalling EUR 715.8 thousand were paid under the programme for the portfolio insurance of liquidity loans for exporters – COVID-19 measure, whereas four indemnities in the total amount of EUR 215.5 thousand relate to the programme for insurance of short-term export receivables. At the same time, under all insurance programmes, the amount of EUR 55.4 thousand was paid to the insured as compensation for costs incurred for the purpose of reducing possible damage or for the purpose of recovery.

In 2024, ten debtor payment delay notifications were received, three of which related to the programmes for loan portfolio insurance (two under the programme for the portfolio insurance of liquidity loans for exporters – COVID-19 measure and one under the programme for the portfolio insurance of liquidity loans for exporters – Ukraine measure), whereas seven related to the programme for the insurance of short-term export receivables.

RECOVERIES FROM DEBTORS

In 2024, the amount of recoveries totalling EUR 353.8 thousand was collected from debtors. The amount of collected recoveries rose compared to the amount collected in the previous year when the amount of recoveries collected had equalled EUR 119 thousand.

RISK MANAGEMENT

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

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



Krka Bridge

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

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

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

- Asset and Liability Management Committee – manages liquidity risk, interest rate risk and currency risk through the prescribed policies, ordinances and procedures that regulate this area,
- Credit Risk Assessment and Measurement Committee – manages credit risk through the prescribed policies, ordinances and other internal documents that are related to credit risk,
- HBOR Information System Management Committee – manages the resources of the information system and adequately manages the risks that arise from the use of information technology,
- Sustainable Finance Committee – manages the development of sustainable finance at HBOR, and the integration of environmental, social and governance risks in the risk management framework of HBOR.

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

Credit risk

The Bank controls credit risk through Credit Policies and Credit Risk Management Ordinance that determine the internal control systems with an objective to act preventively.

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

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

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

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

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

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

The Bank ensures adequate management of liquidity, currency and interest rate risks through the Asset and Liability Management Committee. The management of these risks implies a reduction of

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

Liquidity risk

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

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

Interest rate risk

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

Currency risk

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

The methods for the measurement, assessment, monitoring and management of currency risk have been established, the limits and early warning signals as well as procedures in the case of crisis indication or occurrence have been determined, and the reports necessary for overall currency risk containment have been defined.

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

Operational risk

The basic principles for operational risk management are determined in the umbrella document: the Operational Risk Management Policies.

The system structure of management and responsibility has been set up, the approach to the calculation of capital requirements for operational risk has been defined, and the reporting system and the manner of determining, containing and monitoring exposure to operational risk have been established.

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

HBOR is continuously working on increasing the level of information security, continuity of operations and resilience to cyberattacks so that, in the event of an incident, business can continue without interruption. Security controls are being continuously enhanced and improved in accordance with technological trends and regulatory requirements.

The internal control system is being continuously improved and measures are implemented that have an impact on reducing exposure to operational risk at the HBOR level.

Outsourcing risk

The basic principles for outsourcing risk management are determined in the umbrella document: the Outsourcing Risk Management Policies. The management of outsourcing has been set up, the management of relations with the service providers has been determined and the reduction of the outsourcing risks to the lowest level has been prescribed.

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

Activities were carried out to improve the outsourcing risk management system and revise internal documents on outsourcing in accordance with good business practice and regulations.

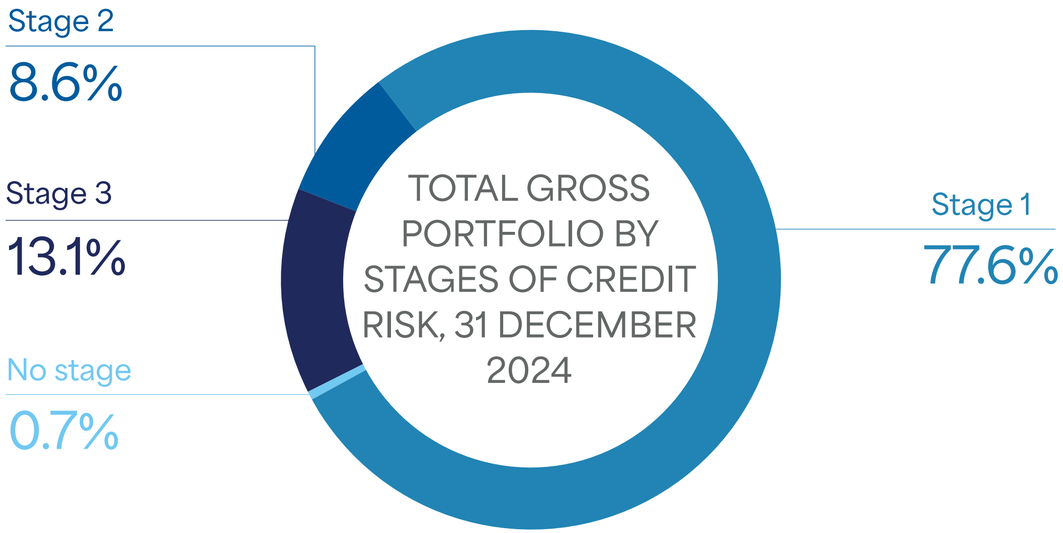
Asset quality of HBOR

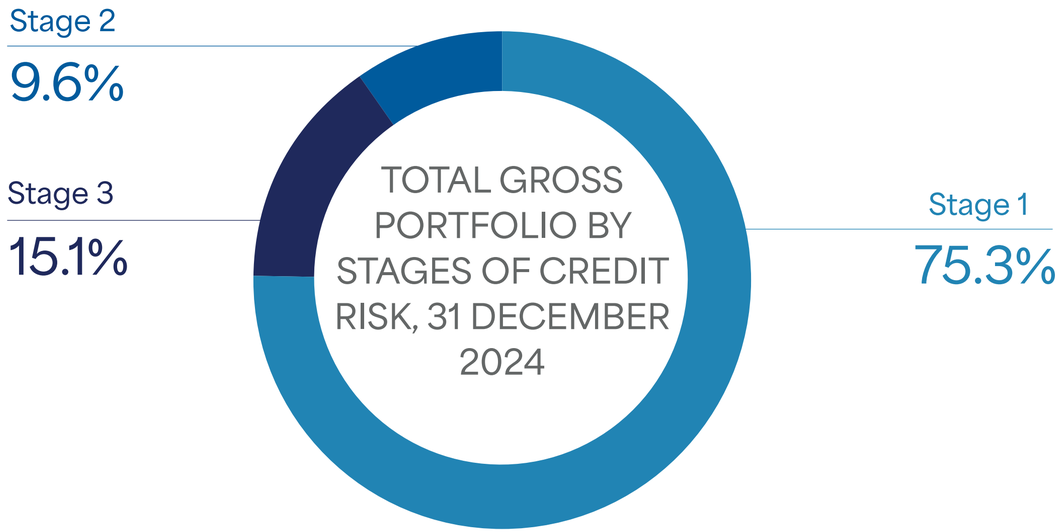
Since 2018, HBOR has implemented the International Financial Reporting Standard 9 for the impairment of financial instruments.

As at 31 December 2024, HBOR's total gross portfolio amounted to EUR 4,992.72 million. Of the total gross portfolio, 77.6 percent was allocated to credit risk Stage 1, whereas 8.6 percent was allocated to credit risk Stage 2 and 13.1 percent to credit risk Stage 3.

Financial assets not classified to credit risk stages represent 0.7 percent of the total gross portfolio.

Of the total gross portfolio, 75.3 percent was allocated to credit risk Stage 1, 9.6 percent to credit risk Stage 2 and 15.1 percent to credit risk Stage 3. This is shown in the following graphs.


Stage 2
8.6%
Stage 3
13.1%
No stage
0.7%
TOTAL GROSS PORTFOLIO BY STAGES OF CREDIT RISK, 31 DECEMBER 2024
Stage 1
77.6%


Stage 2
9.6%
Stage 3
15.1%
TOTAL GROSS PORTFOLIO BY STAGES OF CREDIT RISK, 31 DECEMBER 2024
Stage 1
75.3%

INTERNAL AUDIT

The Internal Audit is part of HBOR's supervision system. It is in charge of monitoring the overall operations on the basis of the principles of legality and HBOR's internal documents by applying the internal audit standards.

The Internal Audit is organisationally independent in carrying out its tasks and determines the manner of operating and reporting as well as preparing its findings, opinions and recommendations on its own. It is administratively responsible to the Management Board and functionally to the Audit Committee and the Supervisory Board of HBOR, to which reports are submitted semi-annually. Based on the audit report and according to the recommendations of the Internal Audit, the Management Board makes the necessary decisions to take corrective measures and activities.

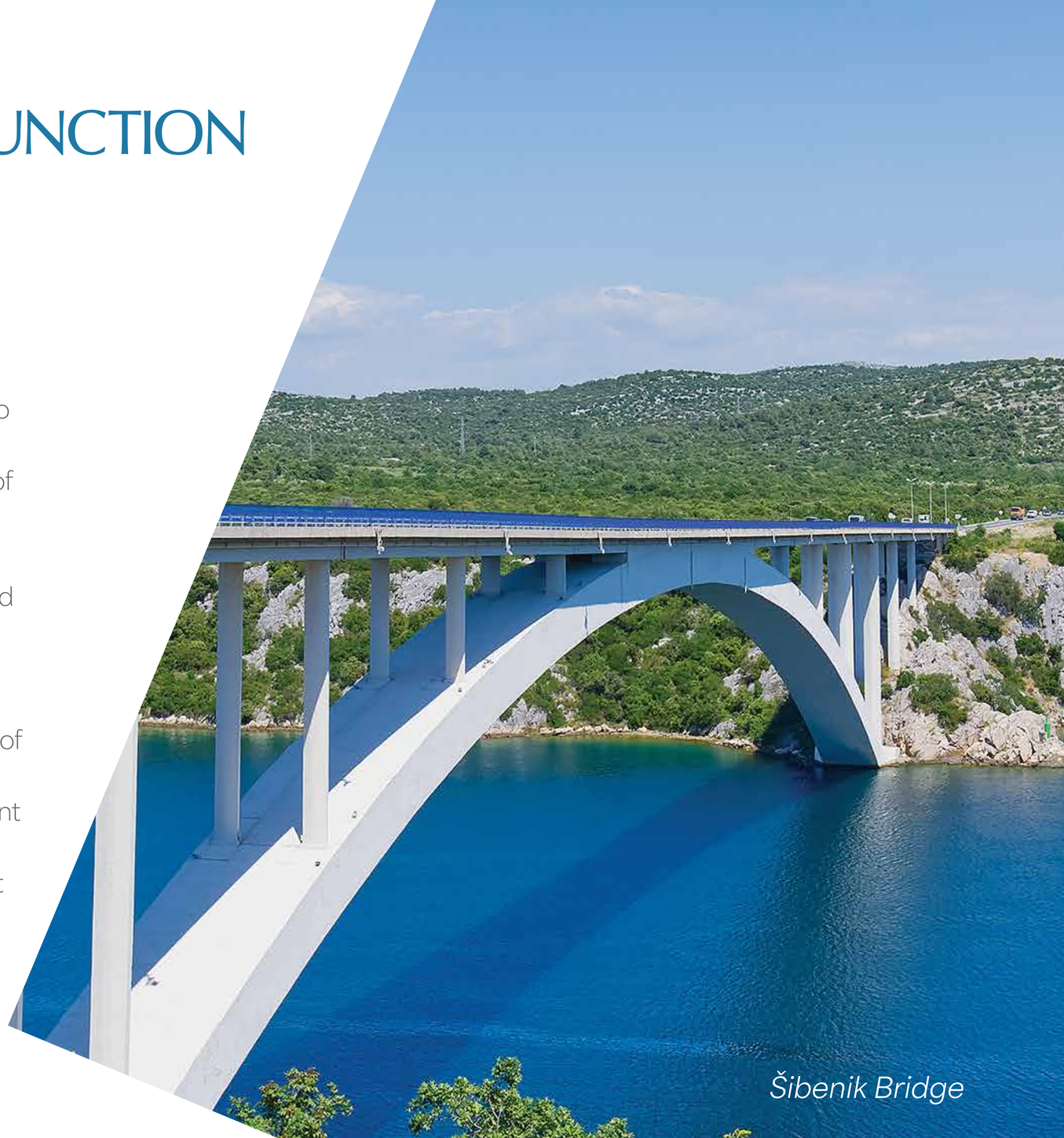


Krk Bridge

COMPLIANCE MONITORING FUNCTION

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

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



Šibenik Bridge

HUMAN RESOURCES

The basis of HBOR's successful operations in 2024 were HBOR's employees, who demonstrated high expertise and client-orientation, as well as inventiveness in creating adequate financial solutions for the needs of the Croatian economy.

Human Resources implement HBOR's human resources process management, including management support.

One of the important segments of human resources management is related to attracting high-quality employees and developing and retaining highly qualified staff. During 2024, 44 public competitions were implemented, under which more than 1,600 applications were processed.

Beside the selection, Human Resources systematically carry out in-house and external educations of employees, thus investing actively in the development and upgrading of employees' competences that are fundamental both for core as well as other business processes of HBOR.

Success at work of all employees is further monitored and documented on a quarterly basis, whereas individual interviews take place on an annual basis.

In 2024, HBOR retained its manner of operations that is organised in the manner that employees can occasionally perform their duties by working from home. Work from home has been regulated with those employees, the nature of whose tasks and duties allows it.



Krk Bridge

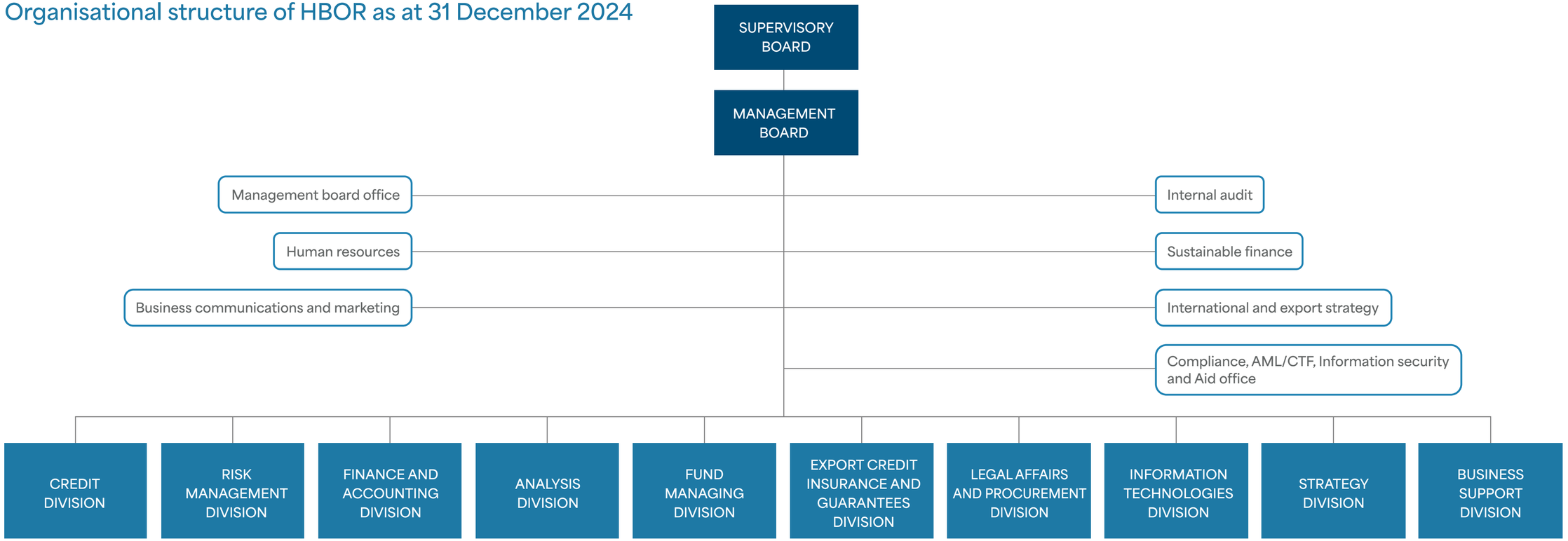
As at 31 December 2024, there were altogether 446 employees in HBOR, of which 293 women and 153 men.

The average age of employees was 45. The share of women in the total number of employees was 66 percent and the share of men 34 percent.

413 employees, i.e. 92 % hold a university degree.

The annual employee turnover rate in 2024 was 4.44%, and for core business 2.95%. The total number of employees who left HBOR in 2024 was 19, of which 3 were employees from core business.

Organisational structure of HBOR as at 31 December 2024



OTHER ACTIVITIES

Pillar Assessment

The European Commission, in cooperation with the selected external auditor, carried out a thorough and comprehensive assessment to determine whether HBOR complies with the requirements of Article 154, paragraph 4, sub-paragraph (f) of the Financial Regulation (EU) 2018/1046, applicable to the general budget of the Union. In March 2024, HBOR obtained a positive assessment of the European Commission and thus obtained a power for direct management of the European Union funds.

Under the Pilar-based assessment procedure, the verification process of the following pillars was carried out:

A. Internal Control
B. Accounting
C. Independent External Audit
D. Financial Instruments
E. Exclusion from Access to Finance
F. Publication of Information on Beneficiaries
G. Personal Data Protection



Dr. Franjo Tuđman Bridge - Dubrovnik

The process of verifying and testing was completed in November 2022, when the Preliminary Final Report was submitted to the European Commission. Throughout 2023, there was communication between the European Commission, HBOR and the independent auditor who conducted the pillar-based assessment, and the Final Report was submitted to the European Commission in December 2023.

Rating

On 18 September 2024, the rating agency Standard & Poor's equalised HBOR’s long-term rating with the rating of the Republic of Croatia, thus raising the rating from BBB+ to A-, with a positive outlook, which is HBOR's highest rating in history.

Standard & Poor's highlights HBOR’s role in implementing government economic and social policies with a special focus on sustainable development of the Croatian economy and export promotion. In its report, the rating agency states that HBOR’s role has expanded since its establishment and has developed in line with the strategic goals of the Government of the Republic of Croatia.

Cooperation with EIB

In November 2024, the European Investment Bank (EIB) and HBOR signed a EUR 200 million Finance Contract for the financing of small and medium-sized enterprises, mid-caps, large companies and public sector entities for projects that include the promotion of environmental sustainability and combat against climate change. This loan is a part of the EIB’s framework loan in the amount of EUR 500 million approved to HBOR, based on which the first loan tranche in the amount of EUR 200 million was signed with HBOR in 2023.

In addition to the above, the EIB enabled HBOR to use advisory services in the field of green financing through the "Green Gateway" technical assistance programme. Through this programme, HBOR receives targeted technical assistance for developing its own capacities, improving the assessment of green projects and incorporating EIB's green acceptance standards into HBOR's business processes. The “Green Gateway” programme also strengthens HBOR's role in providing assistance and coordinating training in the field of green finance to the Croatian financial sector. Besides, the programme provides support to the Ministry of Finance and members of the Sustainable Finance Forum in their efforts to raise awareness and readiness for the implementation of regulations and various initiatives in the field of green finance.

International Cooperation and Internationalisation

During 2024, HBOR strengthened its position on the international financial scene through active participation in the work of the EU and international financial institutions, which provided it with better insight into EU development policies, bilateral cooperation with individual institutions, capacity building, and the development of new forms of support for the economy. Special emphasis was placed on active participation in the work of international associations, bilateral cooperation, and strengthening its own capacities.

HBOR participated actively in numerous international events, both multilateral and bilateral. The Bank has established and maintained successful relations with many important international financial institutions, development banks, export credit agencies, associations and clubs, such as the European Association of Public Banks (EAPB), the European Long Term Investors Association (ELTI) of which HBOR is an establishing member, the International Development Finance Club (IDFC), the Banking Association for Central and Eastern Europe (BACEE), the Berne Union, the Network of European Financial Institutions for SMEs (NEFI), the United Nations Environment Programme Finance Initiative (UNEP FI), UN Global Compact, and numerous bilateral trade chambers.

International activities enable HBOR to participate in the development of common positions and lobbying, as well as influence the creation of EU policies and regulations, and also represent the voice of small banks in associations.

The reporting 2024 brought HBOR a step forward in international associations of public banks, as HBOR Management Board members were elected to the management bodies of two European and one global association. In this sense, the election of the President of the Management Board of HBOR to the Administrative Board of the European Association of Public Banks (EAPB) has to be particularly pointed out. Through its membership in the Administrative Board, as the highest management body of the association, HBOR directly influences the shaping of European policies for the sustainable development of economies by promoting common interests in the new European Commission and the European Parliament, working on key areas such as investments in green technologies, sustainable finance, digital transformation, EU promotional policies as well as banking regulation and supervision, with the aim of supporting recovery and resilience, as well as supporting European competitiveness for the benefit of the national economies.

Furthermore, the great significance for HBOR on the global level was achieved by the election of the President of the Management Board of HBOR to the Steering Group of the International Development Finance Club (IDFC), which includes 27 development banks from all over the world. With this, HBOR further strengthened its role in global initiatives for sustainable development, and in particular for promoting the role of development banks in the global financial architecture. This includes working on key issues of climate change and green finance in international cooperation with development banks from around the world.

In the European context, and especially in the CEE countries, cooperation with the Association of Banks of Central and Eastern Europe (BACEE),

which consists of 24 members, has been intensified, in which the member of the HBOR Management Board, Josip Pavković, was elected to the Management Board, which further ensured the HBOR's presence in European financial circles, which is of great importance for the improvement of regional cooperation and the strengthening of ties with the banking sector of Central and Eastern Europe.

In addition to the above, HBOR Management Board member Alan Herjavec holds a mandate on the Management Board of the European Long-Term Investors Association (ELTI), which brings together 34 members, where intensive activities related to InvestEU, state aid, competitiveness and the multiannual financial framework were conducted during the year.

Besides on the management level, HBOR experts are involved in numerous working groups of these associations. A new impetus was achieved at the beginning of the last year, for a period of two years, by the engagement of an HBOR representative in the work of the IDFC related to the development of green financing instruments, measuring the financing for CO2 reduction and climate adaptation, and financing of biodiversity. This contributes to HBOR's reputation in the professional sector as a transmitter of knowledge, thus proving that we are able to apply best practices and the most appropriate methods and examples of climate finance implementation in HBOR's work.

On a bilateral level, during 2024, HBOR received training and knowledge exchange in cooperation with CDP, KfW, AFD, NRW, BGK, providing employees with additional experience in the areas of InvestEU, social housing, green finance, human resources and compliance. Also, HBOR provided advisory and professional assistance to development banks from Romania and Bosnia and Herzegovina in developing their capacities.

In 2024, as in previous years, active cooperation between HBOR and the Network of European Financial Institutions for SMEs (NEFI) continued, the network that brings together 21 financial institutions specialised in facilitating access to finance for small and medium-sized enterprises (SMEs).

During 2024, HBOR actively participated in the meetings of the Export Credits Group of the Council of the European Union and in the meetings of the working group of the OECD Arrangement on Officially Supported Export Credits, where, as an expert member of the Croatian delegation, it made a significant contribution to discussions on topics related to export credit operations and was actively engaged in the accession process of the Republic of Croatia to the OECD.

During the reporting year, the Bank continued its active participation in the work of the Berne Union, the world's largest association of export credit insurers with 84 members from all over the world. HBOR is a member of one of the four operational committees of the Berne Union: the Prague Club Committee. HBOR’s representatives participated actively in the Berne Union Spring Meeting that was held in Oslo in April, bi-annual meeting of the Prague Club Committee held in Athens in May, the Annual General Meeting of the Berne Union held in Hamburg in October, and in two thematic specialist meetings.

Through the mentioned activities, HBOR has additionally confirmed its commitment to strengthening cooperation within the European and global framework of development banks.

ELENA *(European Local ENergy Assistance)*

Through its operations, HBOR provided to public and private sector business entities the possibility of financing documentation for the preparation of investment projects in the field of energy efficiency and renewable energy sources by grants under the ELENA Facility in the period from November 2019 to April 2024.
ELENA is a technical assistance initiative jointly developed by the European Commission and the European Investment Bank to support the preparation of investments in energy efficiency and renewable energy sources. Technical assistance is intended for beneficiaries in both the private and public sectors, and it can be used for the preparation of projects financed by the beneficiaries either under HBOR's financial instruments or loan programmes, with their own funds or from other sources of finance.
Under the ELENA Facility implemented by HBOR, 100 percent of the cost of investment project preparation by selected consultants was covered. The Facility itself provided grants to cover 90 percent of the costs of project documentation preparation, and the remaining 10 percent of project preparation costs was provided by HBOR from its own sources. Grants were mainly used to finance architectural, engineering and related advisory services in construction and spatial planning for energy efficiency projects in buildings that included renewable energy sources. The services were provided by external suppliers (consultants).
During the ELENA Facility implementation, the preparation of documentation for 81 projects was financed, of which 85 % related to the public sector. Short overview by the type of projects is shown below:

- 12 public lighting projects
- 61 public sector buildings
    - 12 public hospital and health centre buildings
    - 8 primary school buildings
    - 6 kindergarten buildings
    - 7 secondary school and university buildings
    - 3 homes for the elderly
    - 25 business buildings and cultural institutions
- 8 private sector buildings.

Several counties, cities, municipalities and public authorities prepared projects to increase energy efficiency in hospitals, schools, kindergartens, homes for the elderly, sports facilities, shopping centres and entrepreneurial facilities as well as in public lighting systems, whereas companies prepared projects to increase energy efficiency in hotels, shopping centres and production facilities. The preparation of project documentation was financed from the funds of the ELENA grant funds in an overall amount of EUR 1,991 million (288 documents).

Personal data protection

In 2024, HBOR continued with updating and supplementing the Register of Personal Data Processing Activities, adjusting business processes to the GDPR and the related regulations, i.e. continued with the active implementation of activities aimed at harmonising business processes with the stated regulations, implementing internal education programmes for employees and conducting data protection impact assessments in relation to the processing of personal data for which such conducting is recommended. Implemented changes in the manner of personal data processing for the purpose of harmonisation with the stated regulations, as well as continuous education of employees have additionally reduced the risks of processing personal data of HBOR's employees and clients.

Function of preventing money laundering and terrorist financing

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

Restrictive measures

For the purpose of implementing restrictive measures, HBOR fulfils the obligations set out in the Act on Restrictive Measures and regulations adopted pursuant to that Act. Based on the aforementioned Act, the Policy on the Implementation of Restrictive Measures at HBOR is applied.

Regional offices

In 2024, HBOR's regional offices (in Pula, Rijeka, Osijek, Varaždin, Gospić, Zadar and Split) implemented the planned activities in the segments of presentations and education as well as initiation of lending activities proportional to the lending activities at the level of HBOR as a whole. In the performance of the planned activities, all regional offices successfully cooperate with local and regional government units (municipalities, cities, counties), particularly with their offices for the economy, the relevant chambers of commerce and chambers of trade, entrepreneurial centres, development agencies as well as local action groups.
Large part of activities is focused on advising and informing entrepreneurs

on the use of HBOR's products as a source of finance for investments in business start-ups, growth and development.
In order to ensure greater accessibility and even territorial distribution, as well as to improve the quality of HBOR services to clients in all parts of the Republic of Croatia, the Regional Office for Central Croatia was established in Zagreb in December 2024. The new regional office will be responsible for the areas of Zagreb, Bjelovar-Bilogora and Sisak-Moslavina counties. Regional offices are considered to be an important distribution channel for HBOR's products, especially in the context of activities under the National Recovery and Resilience Plan, implementation activities of the Operational Programmes of HBOR's Business Strategy and new Financial Instruments implemented by HBOR: Urban Development Fund and Sustainable Tourism Loans, on which special emphasis was put in 2024.

Property management business support

At the end of 2024, the prices of immovable property taken over in exchange for due receivables were redefined, with the aim of encouraging the sale of the immovable property acquired in the proceedings for unpaid receivables in 2025.
For the purpose of further optimisation of operations, the Strategy Division was reorganised, whereby the maintenance and acquisition of tangible assets have been integrated into its scope of work.

Negotiations have been initiated to find additional business premises in order to ensure sufficient office premises for all HBOR employees.
At the beginning of the year, the relocation of 132 employees to new leased premises was successfully completed, which will be used during the complete renovation of the building at Strossmayer trg.

Public disclosure of activities

HBOR puts a special focus on providing information to the public about the goals of its operations and about the measures for their attainment as well as about the results of its activities by simultaneously following the principle of bank secrecy and its function. Therefore, through various forms of providing information, HBOR regularly informed the public about all its important activities in 2024.
During the reporting period, 33 public procurement procedures were published in the Electronic Public Procurement Classifieds. Since 1 July 2017, simple procurement procedures have also been published on HBOR's websites, and since 1 January 2022, all simple procurement procedures with an estimated procurement value equal to or greater than HRK 20 thousand (i.e. since 1 January 2023, all simple procurement procedures with an estimated procurement value equal to or greater than EUR 2,650.00) have been published in the Electronic Public Procurement Classifieds.
In 2024, altogether 6 requests for access to information pursuant to the Act on the Right of Access to Information were received.

OPERATIONS OF HRVATSKO KREDITNO OSIGURANJE GROUP

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

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

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

As at 31 December 2024, there were 20 employees at HKO Group, of which 15 were employed with Hrvatsko kreditno osiguranje d.d., and 5 with PIS. Seventeen employees had university degrees and three had secondary school education.



Pelješac Bridge

Ownership structure

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

Management

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

People authorised to represent

Management Board in 2024:

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

Supervisory Board of HKO

In 2024, the Supervisory Board of HKO was comprised of the following members:

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

Poslovni info servis d.o.o.

Jelena Boromisa performed the function of the Manager of PIS.
Ivana Paić was the authorised representative of the Company.

Audit Committee of HKO

In 2024, the Audit Committee of HKO was comprised of the following members:

- Marin Pranjić, Chairman of the Audit Committee
- Ante Artuković, Member of the Audit Committee
- Andreja Svečnjak, Member of the Audit Committee until 13 March 2024
- Ivica Granić, Member of the Audit Committee from 13 March 2024

Reporting to the supervisory bodies

In 2024, the Company provided regular reports to the supervisory bodies on all relevant facts and changes in the Company pursuant to the Insurance Act, the ordinances of the Croatian Financial Services Supervisory Agency and other regulations in force. The Company regularly met all requirements of the supervisory bodies in terms of control of operations and submission of the Company's data.

OPERATIONS IN 2024

In 2024, Hrvatsko kreditno osiguranje d.d. generated gross premium income of EUR 2.35 million, a decrease of 5.0 % on the previous year. Export receivables accounted for 52.3 % percent of the total premium income. In 2024, the total reported insured turnover amounted to EUR 1.56 billion, a decrease of 8.0 % percent on the previous year.
The reason for the decline in reported insured turnover and the related premium income is the result of recession pressures in key export markets.
As at 31 December 2024, total exposure in accordance with the approved limits by buyers stood at EUR 796 million, an increase of 6.8 % compared with 31 December 2023.
As at 31 December 2024, altogether 8,907 credit limits were covered by the insurance, an increase of 9.6 % on the previous year. Within the total structure of limits, 5,854 credit limits were related to domestic receivables, and 3,053 credit limits were related to export receivables towards buyers in 64 countries worldwide.
In 2024, the Company paid indemnities and related cost coverage in the total amount of EUR 464 thousand, and recovered amounts of EUR 350 thousand. Therefore, the net indemnities amounted to EUR 114 thousand, whereas in the previous year, the amount of liquidated net indemnities was EUR 1.85 million. The indemnities were paid for buyers in Croatia, Hungary, Great Britain, Ireland, France, Italy, Serbia and Sweden.

Insurance business indicators

	2022	2023	2024
Volume of insured receivables, in EUR million	1,707.52	1,712.84	1,575.89
Exposure to buyers, as at 31 December, in EUR million	667.77	745.30	796.18
Gross premium charged, in EUR million	2.62	2.48	2.35
Amount of net indemnities paid, in EUR million	0.84	1.85	0.11
Number of active limits as at 31 December	7,796	8,126	8,907

Acquisition costs, marketing costs, administration costs and other operating expenses of the HKO Group in 2024 amounted to EUR 1.42 million, whereas, at the Company level, they amounted to EUR 1.14 million.

Risk assessment fee income stood at EUR 0.31 million, whereas they amounted to EUR 0.28 million in 2023.

Net investment income in 2024 stood at EUR 0.25 million (EUR 0.24 million in 2023).

At the end of the business year 2024, the HKO Group recorded profit before taxes for the year in the amount of EUR 0.35 million, whereas 2023 was ended with a profit before taxes for the year of EUR 0.13 million.

As at 31 December 2024, the total assets of the HKO Group amounted to EUR 11.25 million, an increase of 8.38 % compared to 31 December 2023, when the total assets of the HKO Group stood at EUR 10.38 million.

As at 31 December 2024, the total capital of the HKO Group amounted to EUR 8.24 million.

PRINCIPLES OF FINANCIAL REPORTING

The HBOR Group prepares:

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

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

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



Krk Bridge

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

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



Old Bridge - Sisak

OVERVIEW OF FINANCIAL PERFORMANCE IN 2024

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

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

The separate and consolidated Annual Financial Statements of HBOR for 2024, which can be found enclosed, have been audited by the audit companies Šibenski Revicon d.o.o. and BDO Croatia d.o.o. that expressed an unqualified opinion in the common Independent Auditor's Report.



Čiovo Bridge

OVERVIEW OF FINANCIAL OPERATIONS OF THE GROUP

Having in mind the size of the subsidiary companies and the volume of their operations compared with the operations of the parent company, their financial data are not significant so as to be particularly highlighted within the framework of the consolidated financial statements. Consequently, they do not have a material effect on the consolidated financial statements in comparison with the separate statements of HBOR as the parent company. The Hrvatsko kreditno osiguranje Group represents only 0.28 percent of the parent company's assets.

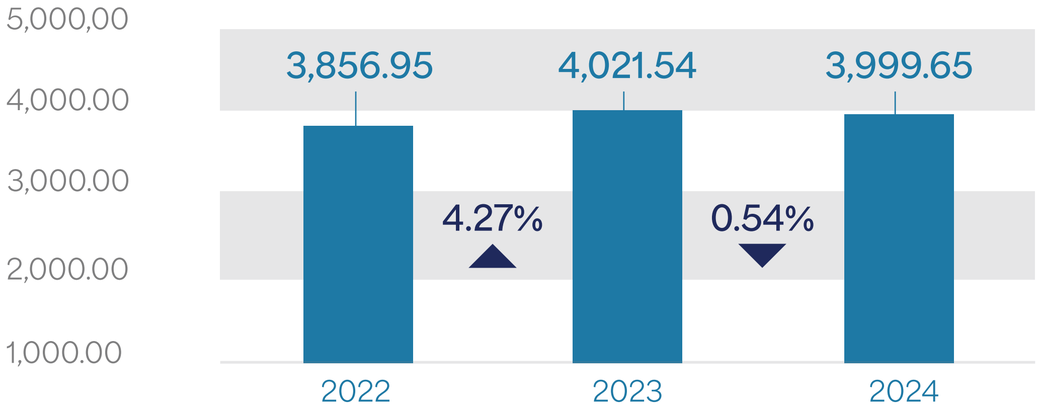


Dr. Franjo Tuđman Bridge - Dubrovnik

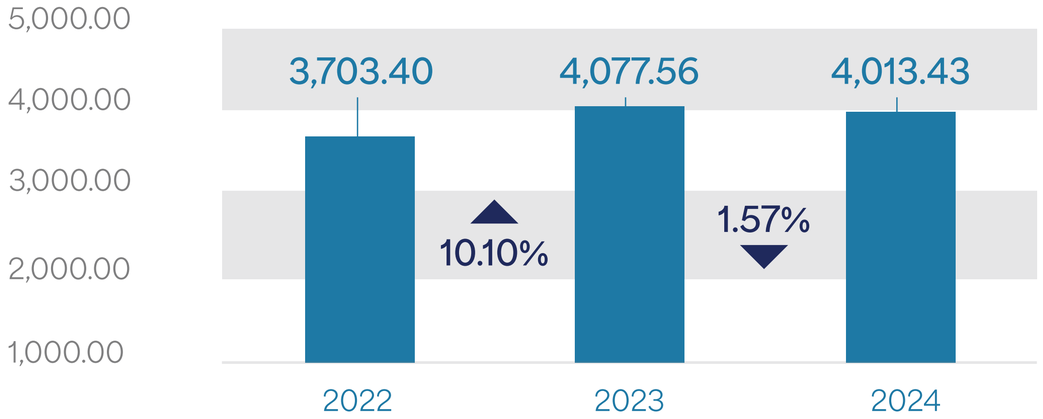
Breakdown of the most significant financial information of the HBOR Group, in millions of euros

	2022	2023	2024
Total assets	3,856.95	4,021.54	3,999.65
Gross loans	3,703.40	4,077.56	4,013.43
Total equity	1,422.13	1,457.88	1,504.29
Total income	92.69	105.40	131.64
Total expense	(67.54)	(75.45)	(91.46)
Profit	25.15	29.95	40.18
Interest income calculated on the basis of effective interest rate method and income from the cancellation of subsidy deferral at the expense of HBOR's operations	83.51	94.87	122.56
Interest expense	(21.03)	(28.27)	(47.31)
Net interest income	62.48	66.60	75.25

TOTAL ASSETS (EUR million)



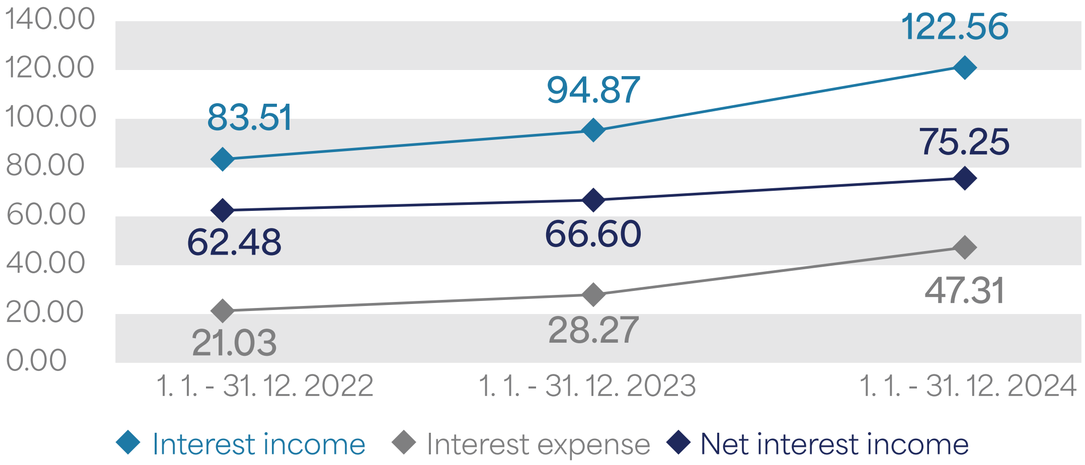
GROSS LOANS (EUR million)



TOTAL INCOME, TOTAL EXPENSE AND PROFIT (EUR million)



INTEREST INCOME, INTEREST EXPENSE AND NET INTEREST INCOME (EUR million)



Results of the Group

In 2024, the HBOR Group generated profit after tax in the amount of EUR 40.18 million. The recorded profit is by 34.16 percent higher as compared to the previous year, and the reasons are stated in the description of HBOR's financial performance.

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

In 2024, total income on consolidated basis amounted to EUR 131.64 million, whereas total expenses amounted to EUR 91.46 million.

In the breakdown of income of the HBOR Group, the largest portion, i.e. 93.10 percent, relates to interest income as a result of operations of the parent company.

A major part of total expenses relates to interest expenses of 51.73 percent and operating expenses of 33.84 percent as a result of operation of the parent company.

The consolidated operating expenses in 2024 amounted to EUR 30.95 million and consisted of general and administrative expenses and other operating expenses.

There were 466 employees in the Group on 31 December 2024, whereas there had been 428 employees in the Group at the end of 2023.

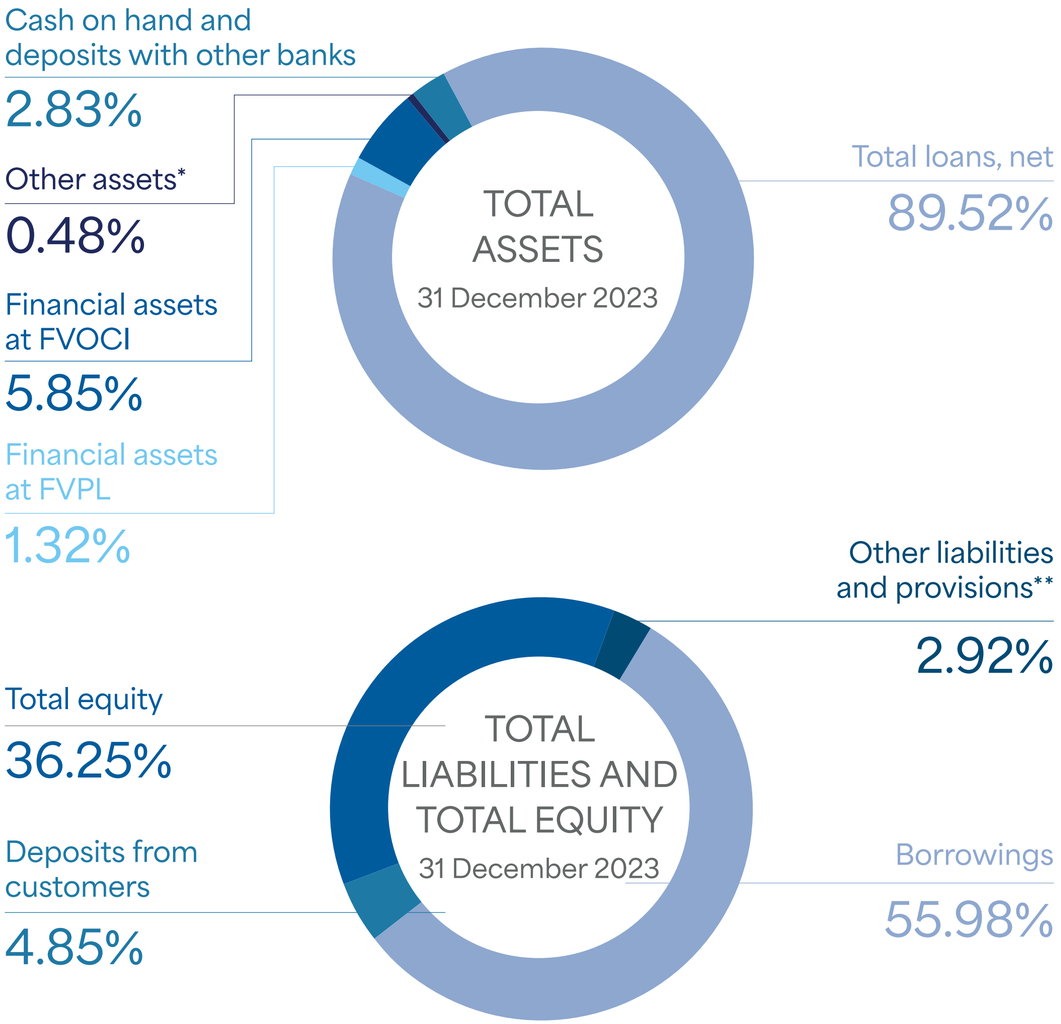
Assets and liabilities of the Group

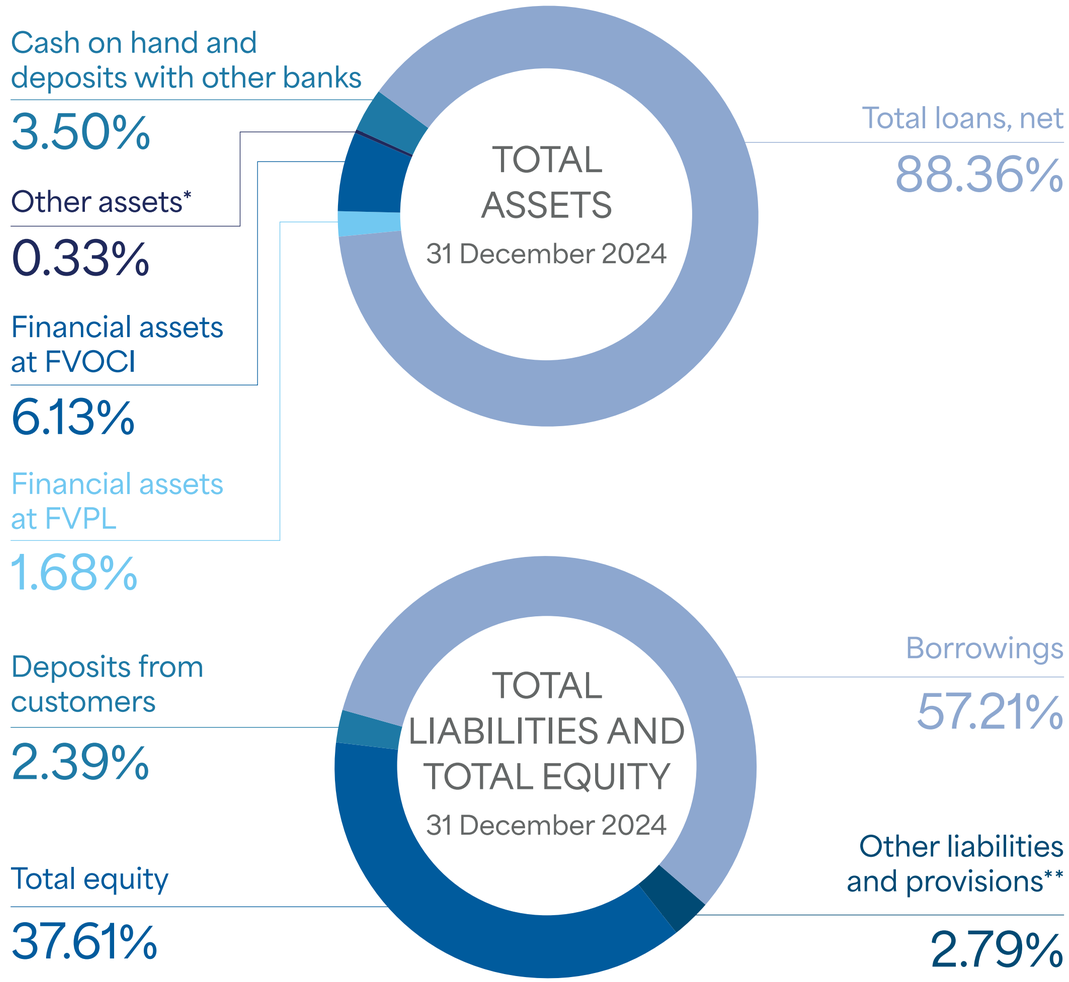
Total assets of the Group on a consolidated basis amount to EUR 3,999.65 million and remain at the year-start level.

In the breakdown of assets, the major portion relates to the lending activities of the parent company, i.e. net loans account for 88.36 percent of total assets.

Total liabilities and total equity as at 31 December 2024 amount to EUR 3,999.65 million and, out of this amount, total liabilities amount to EUR 2,495.36 million, i.e. 62.39 percent.
In total liabilities and total equity of the Group, the major portion, i.e. 57.21 percent, consists of borrowings of the parent company.

At the end of 2024, total equity on consolidated basis amounted to EUR 1,504.29 million and accounted for 37.61 percent of total liabilities and total equity of the Group.





*Property, plant and equipment and intangible assets, Foreclosed assets and Other assets.
**Provisioning includes provisioning for guarantees, commitments and other liabilities.

OVERVIEW OF FINANCIAL PERFORMANCE OF HBOR

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



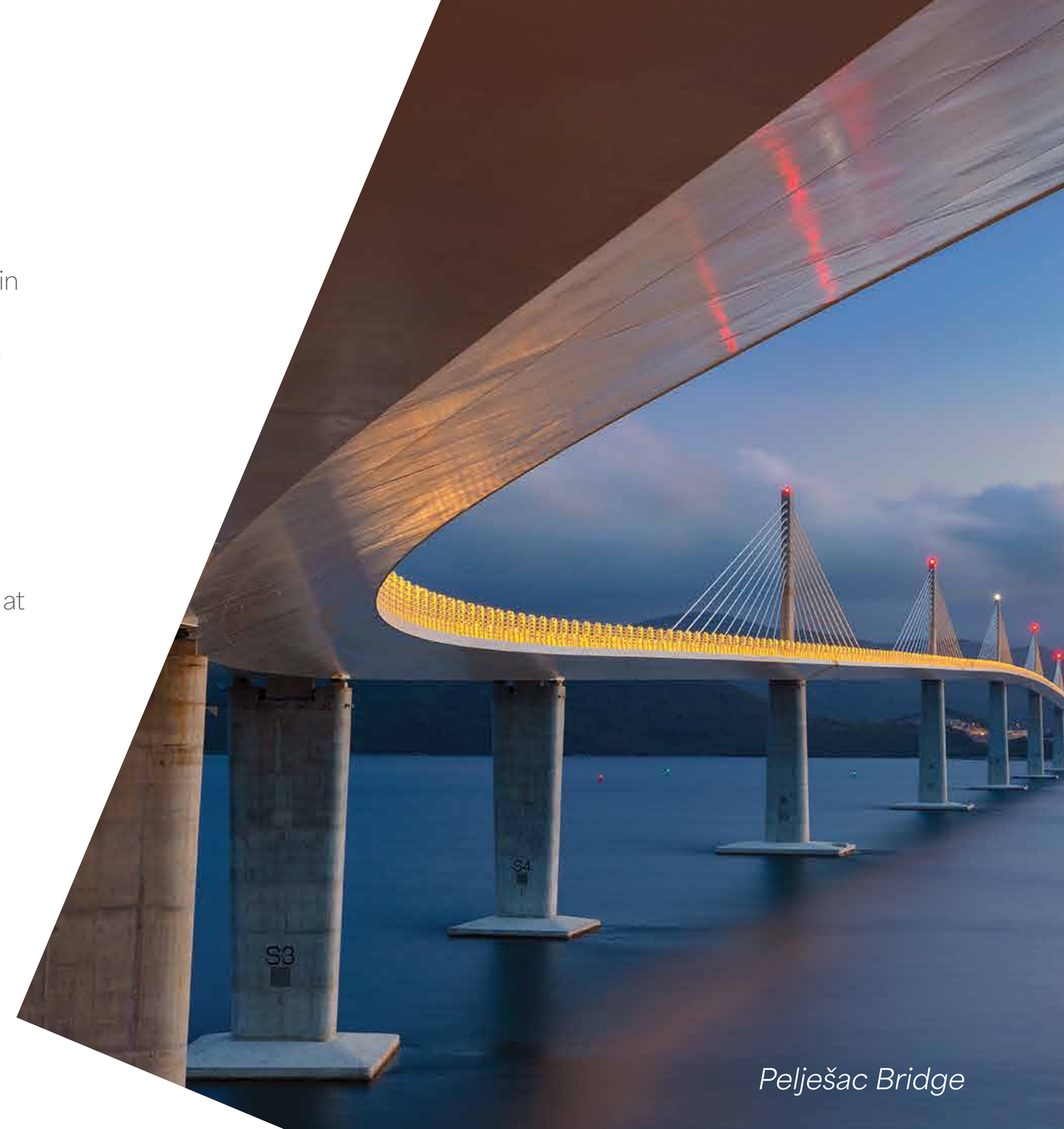
Slunj Bridge

Financial performance

In 2024, HBOR generated total income of EUR 128.67 million, expenses in the amount to EUR 88.77 million and profit in the amount of EUR 39.90 million. HBOR's profit generated in 2024 increased by EUR 10.06 million compared with the profit generated in 2023, i.e. by 33.71 percent.

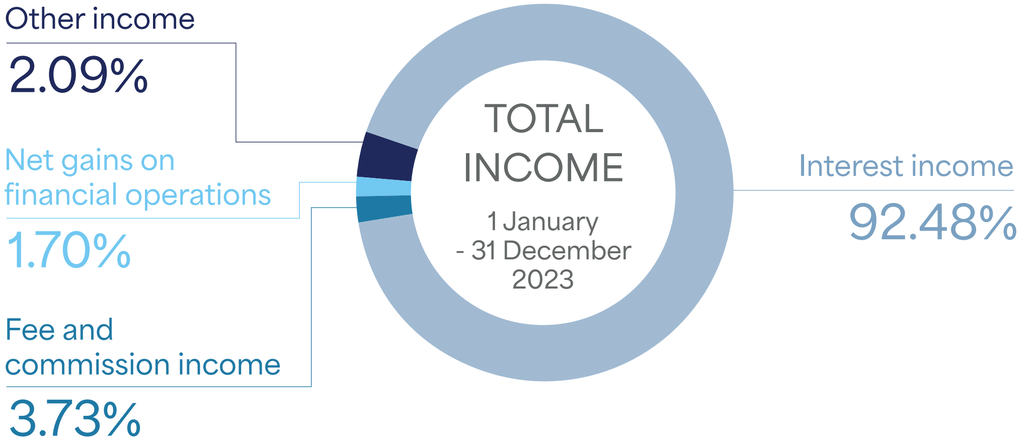
The circumstances which resulted in the increased profit generated in 2024 compared to the profit generated in 2023 are as follows:

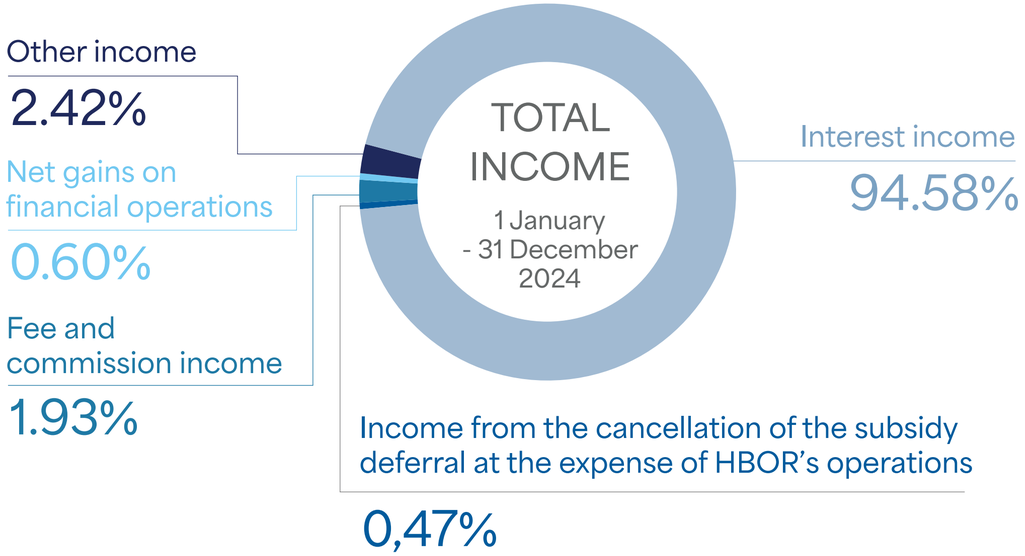
- increase in interest income of EUR 27.07 million,
- increase in interest income from the cancellation of subsidy deferral at the expense of HBOR's operations of EUR 0.60 million,
- increase in interest expenses of EUR 19.03 million,
- decrease in fee and commission net income of EUR 1.45 million,
- decrease in net gains on financial operations of EUR 0.97 million,
- increase in other income of EUR 0.98 million,
- decrease in net losses from impairment and provisions of EUR 7.38 million,
- increase in operating expenses of EUR 2.30 million,
- increase in subsidy costs at the expense of HBOR's operations of EUR 2.22 million.

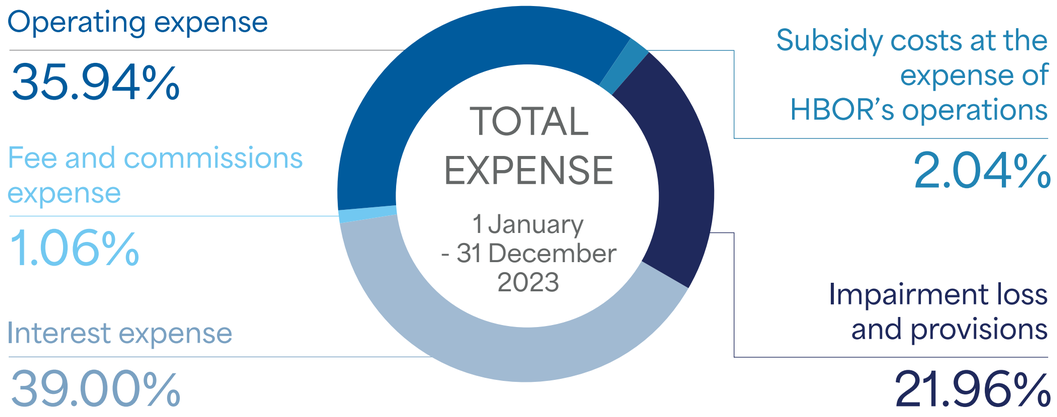


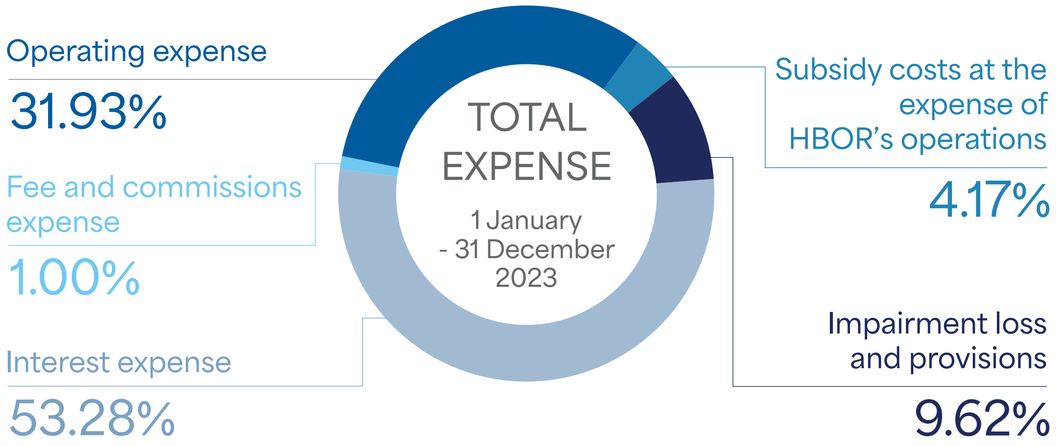
Pelješac Bridge

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









Net interest income

Net interest income amounted to EUR 75.00 million, an increase of 13.02 percent on the previous reporting year due to an increase in interest income of EUR 27.67 million and an increase in interest expenses of EUR 19.03 million.

Interest income calculated on the basis of the effective interest rate method amounted to EUR 122.30 million, an increase of 29.24 percent on the last year. The increase in interest income is largely the result of the increase in the effective interest rate, the increase in income from short-term transactions of the Treasury of EUR 3.42 million, and a significant increase in the amount of collected default interest of EUR 5.04 million.

Interest expenses amounted to EUR 47.30 million, an increase of 67.32 percent compared with the previous reporting year, which is mostly due to an increase in interest rates on borrowings.

Having in mind the described trends, a higher increase in interest income in the absolute amount of EUR 27.07 million than an increase in interest expenses of EUR 19.03 million affected the increase in the net interest margin compared to the previous year, which stood at 1.86 percent, while in the previous year it had amounted to 1.68 percent.

Net fee and commission income

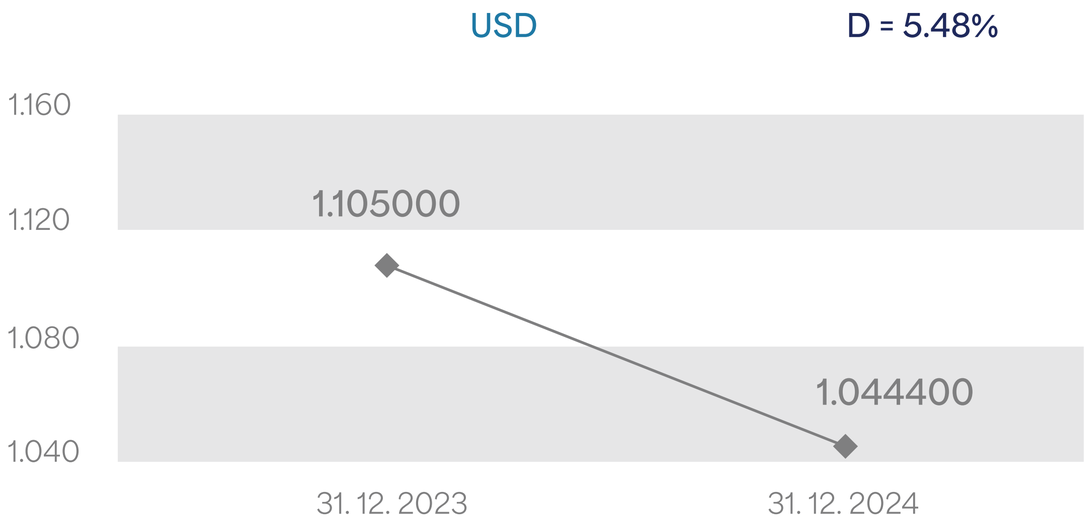
Net fee and commission income amounted to EUR 1.59 million, a decrease of 47.70 percent compared with the previous year due to a higher decrease in fee and commission income of EUR 1.33 million compared to the increase in fee and commission expenses of EUR 0.12 million. A decrease in fee and commission income is mostly a result of a decrease in fee income under agent transactions performed for and on behalf of principal and under guarantees issued.

Net gains/(losses) on financial operations

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

In the reporting period, net gains on financial operations amounted to EUR 0.77 million, whereas in the previous year, net gains amounted to EUR 1.74 million.

A breakdown of changes in the exchange rate of the euros against the USD:



Note:
D = EUR depreciation 2024/2023

Funds and sources of funds that are denominated in another currency or are indexed to the currency clause are converted by HBOR into the equivalent value in EUR at the middle exchange rate of HBOR or another agreed exchange rate on the reporting date.
Revenues and expenditures in another currency are converted at the exchange rate on the transaction date. The resulting foreign exchange gains or losses are recorded in the Profit or Loss Account in net figures.

Operating expenses

Operating expenses that include general and administrative expenses and other operating expenses stood at EUR 28.34 million, an increase of 8.79 percent compared with the previous year, mostly as a result of an increase in personnel costs due to a higher headcount.
At the end of 2024, the total number of employees was 446 (on 31 December 2023: 409 employees).

Subsidy costs at the expense of HBOR's operations

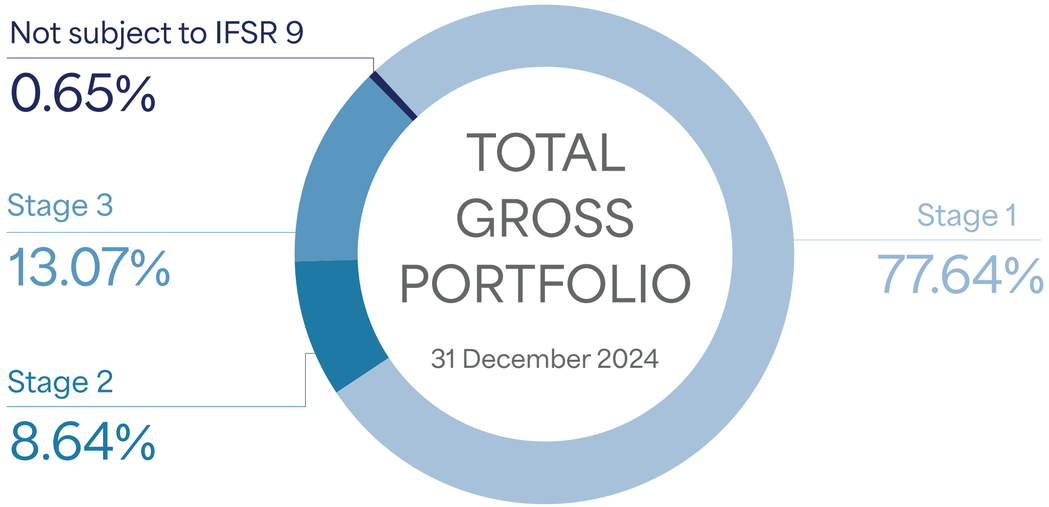
In 2023, HBOR launched a new product of interest rate subsidy at the expense of HBOR's operations. The funds for subsidising interest rates are provided by HBOR from its own sources.
In the reporting period, the cost of subsidy at the expense of HBOR's operations was realised in the amount of EUR 3.70 million.

Impairment gain/(loss) and provisions

In the reporting period, placement impairment net losses stood at EUR 8.54 million, whereas in the previous year, they stood at EUR 15.92 million.

The text to follow contains a breakdown of portfolio quality:





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

	2023		2024	
	Amount	Breakdown(%)	Amount	Breakdown(%)
Total gross portfolio, EUR million	4,980.55	100.00	4,992.72	100.00
Of which:				
- financial institutions	1,576.63	31.66	1,580.79	31.66
- direct	3,403.92	68.34	3,411.93	68.34
Total provisions, EUR million	496.88	100.00	496.73	100.00
Of which:				
- financial institutions	7.92	1.59	8.23	1.66
- direct	488.96	98.41	488.50	98.34
Provisions/gross portfolio	9.98 %	-	9.95 %	-

Significant changes in financial position

Total assets of HBOR as at 31 December 2024 amounted to EUR 3,995.91 million and remained at the year-start level.

Cash on hand and deposits with other banks

At the end of 2024, cash on hand and deposits with other banks amounted to EUR 135.95 million representing 3.40 percent of total assets, an increase of 22.48 percent compared with the previous year.

Loans to financial institutions and other customers

Total net loans decreased by 1.83 percent on the previous year and stood at EUR 3,534.25 million at the end of 2024 representing 88.45 percent of total assets.
Total gross loans amounted to EUR 4,013.43 million, a decrease of 1.57 percent compared with the previous year. Gross loans to other customers decreased by 1.49 percent compared with the beginning of the year, while gross loans to financial institutions decreased by 1.76 percent compared to the previous year.

At the end of 2024, the proportion between gross loans on-lent through financial institutions and direct placements stood at 30.73 percent : 69.27 percent (31 December 2023: 30.79 percent : 69.21 percent).

Financial assets at fair value through profit or loss

Loans at fair value (pursuant to HBOR's decision, mezzanine loans are classified to this category), investments in investment funds and a part of equity instruments are classified to these assets. As at 31 December 2024, the total amount of these assets equalled EUR 67.05 million representing 1.68 percent of total assets.

Financial assets at fair value through other comprehensive income

a) Debt securities

Bonds of the Republic of Croatia and of companies, and treasury bills of the Ministry of Finance as part of liquidity reserve are classified to these assets. On the reporting date, they amounted to EUR 231.15 million, representing 5.78 percent of total assets.
The impairment of these financial assets is calculated through the application of the model of expected credit losses in the manner that provisions are recognised in the accounts of other comprehensive income, thus not reducing the carrying amount of these financial assets in the statement on financial position. On the reporting date, they amounted to EUR 0.42 million in other reserves.

b) Equity instruments

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

On the reporting date, these assets amounted to EUR 8.07 million, representing 0.20 percent of total assets.









Total liabilities

At the end of 2024, total liabilities amounted to EUR 2,492.41 million, which represents 62.37 percent of total liabilities and total equity. A major part of total liabilities consists of HBOR's borrowings in the total amount of EUR 2,288.27 million.

Borrowings increased by 1.65 percent compared with the beginning of the year, whereas changes in these liabilities are shown in the table below:

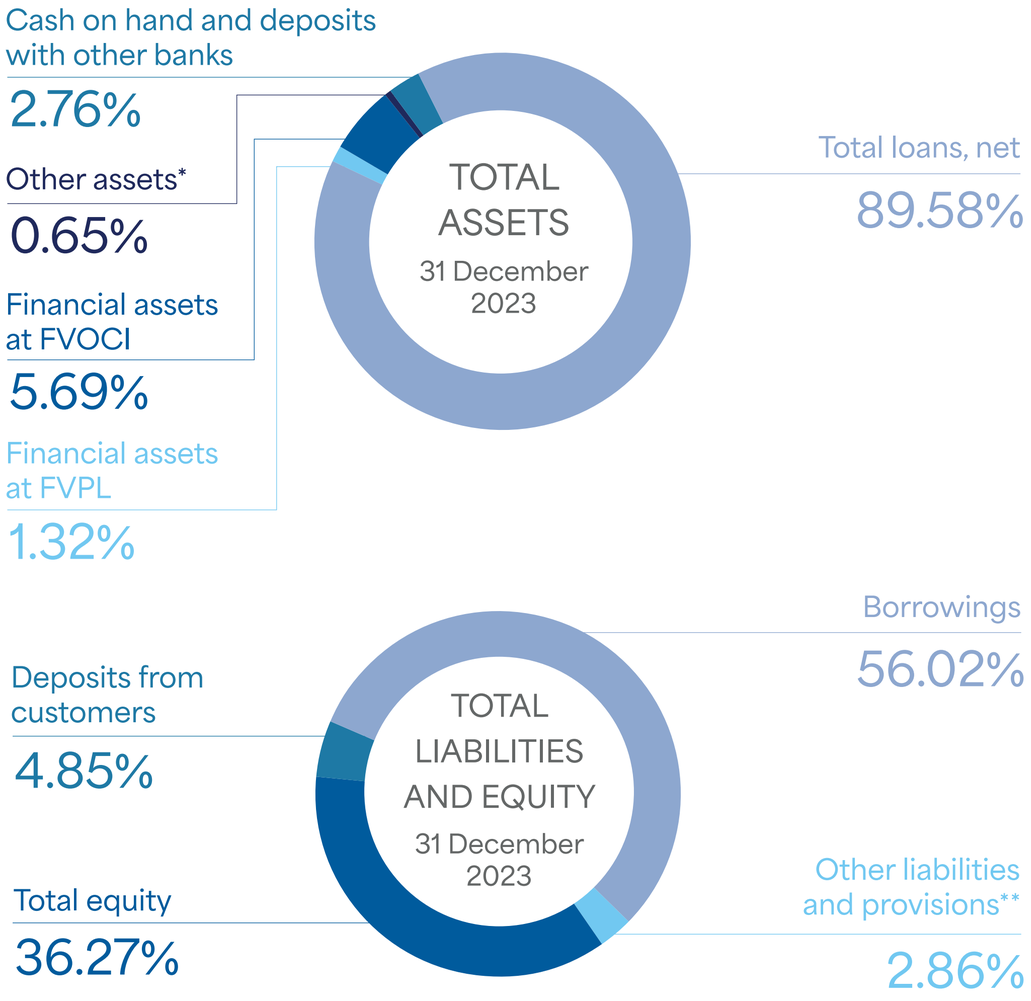
	(EUR million)
Draw-down of funds borrowed under previously contracted funds of special financial institutions and under general borrowings	689.68
Repayment of borrowings and bonds payable	(655.84)
Foreign exchange gains or losses	1.06
Other calculations*	2.19
Total changes	**37.09**

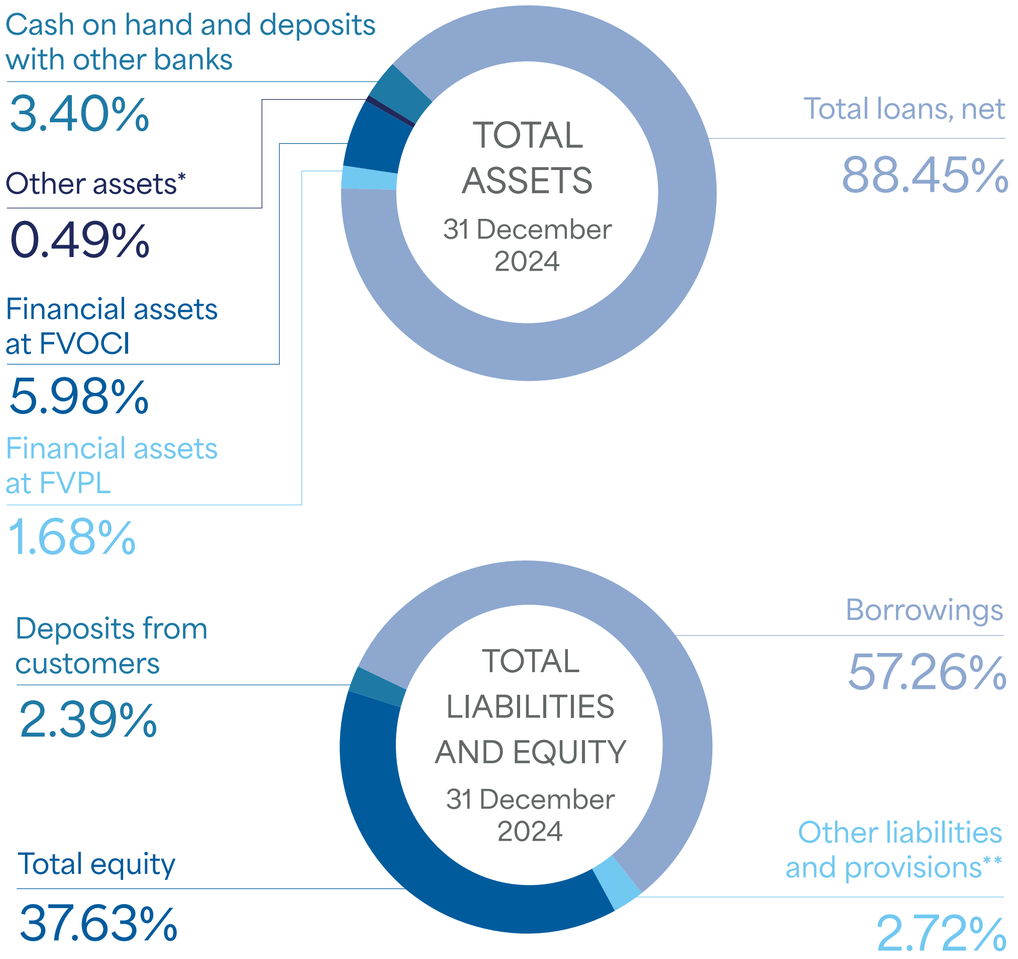
*Other calculations relate to the changes in amount of interest not due and deferred fees.

During 2024, HBOR continued to raise funds, and, on 13 November 2024, HBOR and the European Investment Bank ("EIB") signed a contract in the amount of EUR 200 million (second tranche out of a total of EUR 500 million of the approved framework) for the financing of small and medium-sized enterprises, mid-cap companies, large companies and public sector entities for the projects that include the promotion of environmental sustainability and the fight against climate change.
In addition to the above contract with the EIB, in 2024, HBOR concluded three general purpose borrowing contracts totalling EUR 350 million.

Total equity

Total equity amounted to EUR 1,503.50 million, representing 37.63 percent of total liabilities and total equity.
Total equity of HBOR is comprised of the founder's capital contributed from the budget of the Republic of Croatia, retained earnings from the profits generated in the previous years, other reserves, guarantee fund and profits for the current period.
In the reporting period, the amount of EUR 3.00 million was contributed from the budget of the Republic of Croatia into the founder's capital. At the end of 2024, the total amount of capital contributed from the budget of the Republic of Croatia stood at EUR 905.25 million, and the remaining amount to be contributed to the founder's capital up to the total amount of EUR 929.06 million set by the HBOR Act was EUR 23.81 million.
Pursuant to the provisions of the HBOR Act, the entire profits of the Bank generated in the reporting period are allocated to the reserves.





*Investments in subsidiaries, Property, plant and equipment and intangible assets, Foreclosed assets and Other assets.
**Other liabilities, Provisioning for guarantees, commitments and other liabilities.

ANNUAL FINANCIAL STATEMENTS FOR 2024

Zagreb, March 2025



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

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

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

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

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

The separate and consolidated financial statements set out on pages 64 to 216 were authorised by the Management Board on 27 March 2025 for issue to the Supervisory Board and are signed below to signify this.

The Management Board is also responsible for the preparation and content of the Management Report and Statement on the Code of Corporate Governance Application as required by the Croatian Accounting Law, and other information (together "other information"). The Management Report presented on pages 4 to 5, Statement on the Code of Corporate Governance Application presented on pages 6 to 9 and other information presented on pages 10 to 52 were approved by the Management Board on 27 March 2025.

Signed on behalf of the 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, 27 March 2025

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

Report on the Audit of the annual separate and consolidated Financial Statements

Opinion

We have audited the annual separate financial statements of Croatian Bank for Reconstruction and Development ("the Bank") and the consolidated financial statements of the Bank and its subsidiary ("the Group"), which comprise the separate and consolidated statements of financial position of the Bank and the Group, respectively, as at 31 December 2024, and their respective separate and consolidated statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year then ended, and notes to the annual financial statements, comprising significant accounting policies.

In our opinion, the accompanying annual separate and consolidated financial statements give a true and fair view of the separate financial position of the Bank and consolidated financial position of the Group as at 31 December 2024 and of their respective separate and consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Basis for Opinion

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

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

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

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

Key Audit Matters

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

Impairment of loans to other customers	
As at 31 December 2024, in the financial statements of the Bank and the Group, gross loans to other customers: EUR 2,780 million, related impairment allowance: EUR 472 million and revenue from the release provisions recognised in the income statement for the year then ended: EUR 3 million (31 December 2023: gross loans to other customers: EUR 2,822 million, impairment allowance: EUR 471 million, impairment loss recognised in the income statement for the year ended 31 December 2023: EUR 5 million). Please refer to note 4 Summary of significant accounting policies, note 10 Impairment loss and provisions, note 15 Loans to other customers and credit risk section of the note 31 Risk management	
Key audit matter	**How our audit addressed the matter**
Loss allowances represent the Management Board's best estimate of the expected credit losses ("ECLs") within loans to other customers at the reporting date. We focused on this area as the determination of loss allowances requires a significant judgment over the amounts of any such impairment. Impairment allowances for performing exposures (Stage 1 and Stage 2) and non-performing exposures (Stage 3) up to EUR 400 thousand individually are determined by modelling techniques ("collective impairment allowance"). These collective impairment models rely on a number of parameters such as the probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account historical experience, identification of exposures with a significant increase in credit risk, forward-looking information and management judgment. For non-performing exposures exceeding to EUR 400 thousand individually, the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. Related loss allowances are determined on an individual basis by means of a discounted cash flows analysis.	Our audit procedures in this area, performed with the assistance from our own financial instruments and information technology (IT) specialists, included, among others: • Consideration of a business model for financial asset management and review of placement groups; • Acquiring the functioning of internal control systems in relation to the process of assessing the required impairment of loans granted to the Bank's clients; • Inquiring of the risk management and IT personnel to update our understanding of the loan provisioning process, IT applications used therein, key data sources and assumptions for data used in the ECL model. Also, assessing and testing of IT control environment for data security and access; • Inspecting the Bank's and the Group's impairment provisioning methods and models, and assessing their continued compliance with the relevant requirements of the financial reporting standards; • Testing the design, implementation and operating effectiveness of selected controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the identification of events of default, appropriateness of the classification of exposures into performing and non-performing and their segmentation into homogenous groups, calculation of days past due, collateral valuations and calculation of the loss allowances;

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

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

Key Audit Matters (continued)

Impairment of loans to other customers (continued)	
Key audit matter	How our audit addressed the matter
For the above reasons, impairment of loans to other customers was determined by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered this area to be our key audit matter.	• Selecting a sample of individual exposures, with focus on those exposures with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk, such as watchlisted, restructured or rescheduled exposures, loans to clients operating in higher risk industries, non-performing exposures with low provision coverage and loans with significant change in the provision coverage; • For the sample selected, critically assessing, by reference to the underlying documentation (loan files) and through inquiries of the Bank's and the Group's loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2024; For loss allowance calculated individually, our audit procedures included: • For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Bank's and the Group's estimates of future cash flows used in the impairment calculation, such as discount rates, collateral values and realization period by reference to publicly available resources and historical experience. We sought the Management Board's explanations for any material discrepancies identified. For loss allowance calculated on a collective basis, our audit procedures included: • Assessing whether the definition of default and the relevant staging criteria were appropriate and consistently applied. • Obtaining the relevant forward-looking information and macroeconomic forecasts used in the Bank's and the Group's ECL estimate. Independently assessing the information by reference to publicly available sources.

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

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

Key Audit Matters (continued)

Impairment of loans to other customers (continued)	
Key audit matter	How our audit addressed the matter

	• For a sample of exposures, challenging key model parameters, as follows:
	  ○ EAD - by tracing underlying data on exposures to loan contracts;
	  ○ LGD and PD - by reference to the Bank's historical experience, adjusted where relevant for the expected changes in economic conditions as derived from the forward-looking information;
	• Obtaining Bank's and the Group's results of back testing performed over the PD and LGD parameters used in prior periods and seeking the Management Board's explanations for any material discrepancies identified.
	For loss allowance in totality, our audit procedures included:
	• Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposures in total gross exposures, and the non-performing loans provision coverage;
	• Examining whether the Bank's and the Group's loan impairment and credit risk-related disclosures in the financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.

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

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

Other Information

Management is responsible for the other information. The other information comprises Management Board Report and Corporate Governance Report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information.

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

With respect to the Management Report and the Corporate Governance Report, we also performed procedures prescribed by the Accounting Act. These procedures include verifying whether the Management Report has been prepared in accordance with Article 24 of the Accounting Act and whether the Corporate Governance Report contains the information required by Article 25 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures performed, we report that:

1. the information given in the Management Report and Corporate Governance Report for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;

2. the Management Report has been prepared, in all material respects, in accordance with Article 24 of the Accounting Act;

3. the Corporate Governance Report includes the information specified in Article 25 of the Accounting Act.

If, based on the work we have performed above, we conclude that there is a material misstatement, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

BDO Croatia d.o.o. i ŠIBENSKI REVICON d.o.o. was appointed by those charged with governance on 17 September 2024 to audit the annual separate and consolidated financial statements of the Bank and the Group for the year ended 31 December 2024. Total uninterrupted period of engagement of BDO Croatia d.o.o. is 6 years. Total uninterrupted period of engagement of ŠIBENSKI REVICON d.o.o. is 1 year.

In an audit of the annual separate and consolidated financial statements of the Bank and the Group for the year 2024, we determined the materiality levels for the annual financial statements as a whole, as follows:

- for the annual separate financial statements: EUR 15 million
- for the annual consolidated financial statements: EUR 15 million

which represents approximately 1% of the net assets of the Bank and the Group as at 31 December 2024.

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

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

During the period between the starting date of the audited separate and consolidated financial statements of the Bank and the Group for the year 2024 and the date of this Report, we have not provide any banned non-audit services to the Bank or the Group and did not provide design and implementation of internal controls or the management procedures risk associated with the preparation and/or control of financial information or the design and implementation of financial information technology systems, and we maintained our independence from the Bank and the Group in performing the audit.

The engaged partners in the audit of the annual separate and consolidated financial statements of the Bank and the Group for the year 2024, resulting in Independent Joint Auditor's Report, are Ivan Čajko, certified auditor (BDO Croatia d.o.o.) and Radovan Lucić, certified auditor (ŠIBENSKI REVICON d.o.o.).

Zagreb,27 March 2025

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

Hrvoje Stipić, President of the Management Board

Ivan Čajko, Certified Auditor

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

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Zagreb,27 March 2025

ŠIBENSKI REVICON d.o.o.
Stjepana Radića 44
22000 Šibenik
Croatia

ŠIBENSKI REVICON d.o.o.
za reviziju i poslovne usluge
ŠIBENIK
S.Radića 44

Radovan Lucić, Director and Certified Auditor

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

	Notes	2024 EUR '000	2023 EUR '000
Interest income calculated using the effective interest method	5	121,960	94,865
Income from the cancellation of the subsidy deferral at the expense of HBOR's operations		598	-
Interest expense	6	(47,309)	(28,271)
Net interest income		**75,249**	**66,594**
Fee and commission income	7	2,484	3,806
Fee and commission expense	7	(895)	(765)
Net fee and commission income		**1,589**	**3,041**
Net gains on financial operations	8	767	1,740
Other income		5,835	4,985
		83,440	**76,360**
Employee expenses	9 a)	(18,013)	(16,171)
Depreciation and amortisation	9 b)	(1,998)	(1,409)
Other expenses	9 c)	(10,939)	(11,420)
Subsidy costs at the expense of HBOR's operations		(3,701)	(1,475)
Impairment loss and provisions	10	(8,543)	(15,915)
Profit before income tax		**40,246**	**29,970**
Income tax	11	(64)	(23)
Profit for the year		**40,182**	**29,947**
Attributable to:			
Owner of the Bank		**40,182**	**29,947**

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

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

	2024 EUR '000	2023 EUR '000
Profit for the year	**40,182**	**29,947**
Other comprehensive income		
Items that are not transferred subsequently to profit or loss:		
Unrealised actuarial (losses)	(592)	(1,450)
Total items that are not transferred subsequently to profit or loss	**(592)**	**(1,450)**
Items that may be reclassified subsequently to profit or loss:		
Net changes in financial assets at fair value through other comprehensive income	3,831	5,032
Deferred tax – other comprehensive income	(30)	(17)
Total items that may be reclassified subsequently to profit or loss	**3,801**	**5,015**
Other comprehensive income after income tax	**3,209**	**3,565**
Total comprehensive income after income tax	**43,391**	**33,512**
Attributable to:		
Owner of the Bank	**43,391**	**33,512**

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

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

(All amounts are expressed in thousands of Euros)

	Notes	2024 EUR '000	2023 EUR '000
Assets			
Cash on hand and current accounts with banks	12	46,061	42,133
Deposits with other banks	13	93,871	71,761
Loans to financial institutions	14	1,225,809	1,248,881
Loans to other customers	15	2,308,436	2,351,196
Financial assets at fair value through profit or loss	16	67,047	52,922
Financial assets at fair value through other comprehensive income	17	245,387	235,199
Property, plant and equipment and intangible assets	19	5,095	4,868
Foreclosed assets	20	2,140	2,291
Other assets	21	5,801	12,285
Total assets		**3,999,647**	**4,021,536**
Liabilities			
Deposits from customers	22	95,512	194,876
Borrowings	23	2,288,268	2,251,176
Provisions for guarantees, commitments and other liabilities	24	23,368	24,382
Other liabilities	25	88,213	93,223
Total liabilities		**2,495,361**	**2,563,657**
Equity			
Founder's capital	26	961,889	958,889
Retained earnings and reserves		498,945	468,960
Other reserves		1,632	(1,555)
Profit for the year		40,182	29,947
Guarantee fund	27	1,638	1,638
Total equity		**1,504,286**	**1,457,879**
Total liabilities and total equity		**3,999,647**	**4,021,536**

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

Consolidated Financial Statements of the Group
Statement of Cash Flows for the year ended 31 December

(All amounts are expressed in thousands of Euros)

	Notes	2024 EUR '000	2023 EUR '000
Operating activities			
Profit before income tax		40,246	29,970
Adjustments to reconcile to net cash from and used in operating activities:			
Depreciation and amortisation		1,998	1,409
Income tax		(64)	(23)
Impairment loss and provisions		8,543	15,915
Subsidy cost at the expense of HBOR's operations		3,701	1,475
Accrued interest		(714)	(5,266)
Deferred fees		5,233	(159)
Net (loss)/gain from trading with derivative financial instruments		390	(66)
Other changes in assets at fair value		787	(30,076)
Operating profit/(loss) before working capital changes		*60,120*	*13,179*
Changes in operating assets and liabilities:			
Net (increase) in deposits with other banks, before impairment		(22,065)	(67,541)
Net decrease/(increase) in loans to financial institutions, before impairment		20,211	(319,205)
Net decrease/(increase) in loans to other customers, before loss impairment		37,076	(49,331)
Net decrease in foreclosed assets		151	818
Net decrease/(increase) in other assets, before impairment		5,282	(7,841)
Net (decrease)/increase in deposits from banks and companies		(99,313)	58,806
Net (decrease)/increase in other liabilities, before provisions		(5,105)	3,291
Net cash (used in) operating activities		**(3,643)**	**(367,824)**
Investment activities			
Purchase of financial assets at fair value through profit or loss		(14,924)	(5,001)
Sale of financial assets at fair value through profit or loss		-	-
Purchase of financial assets at fair value through other comprehensive income		(117,307)	(98,876)
Sale of financial assets at fair value through other comprehensive income		110,103	225,373
Net purchase of property, plant and equipment and intangible assets		(1,389)	(825)
Net cash (used in)/provided from investment activities		**(23,517)**	**120,671**
Financing activities			
Increase in founder's capital		3,000	2,654
Increase in borrowings – withdrawn funds		689,684	653,112
Decrease in borrowings – repayments of principal		(655,843)	(593,361)
Other		(6,739)	(1,540)
Net cash provided from financing activities		**30,102**	**60,865**
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		971	(763)
Net effect		**971**	**(763)**
Net increase/(decrease) in cash and cash equivalents		3,913	(187,051)
Cash and cash equivalents balance as of 1 January, before impairment		42,292	229,343
Net increase/(decrease) in cash and cash equivalents		3,913	(187,051)
Cash and cash equivalents balance as of 31 December before impairment	**12**	**46,205**	**42,292**
Additional note - Operational cash flows			
Interest paid		43,412	25,502
Interest received		101,491	73,877

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

Consolidated Financial Statements of the Group
Statement of Changes in Equityfor the year ended 31 December
(All amounts are expressed in thousands of Euros)

	Founder's capital	Retained earnings and re-serves	Other reserves	Profit for the year	Guarantee fund	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Balance as of 1 January 2023	**956,219**	**444,087**	**(5,120)**	**24,909**	**1,638**	**1,421,733**
Profit for the year	-	-	-	29,947	-	**29,947**
Other comprehensive income	-	-	3,565	-	-	**3,565**
Total comprehensive income	**-**	**-**	**3,565**	**29,947**	**-**	**33,512**
Capital paid-in from the State Budget	2,654	-	-	-	-	**2,654**
Other increases/decreases in the founder's capital	16	(36)	-	-	-	**(20)**
Transfer of profit 2022 to retained earnings	-	24,909	-	(24,909)	-	**-**
Balance as of 31 December 2023	**958,889**	**468,960**	**(1,555)**	**29,947**	**1,638**	**1,457,879**
Correction of opening balance	-	38	(22)	-	-	**16**
Balance as of 1 January 2024	**958,889**	**468,998**	**(1,577)**	**29,947**	**1,638**	**1,457,895**
Profit for the year	-	-	-	40,182	-	**40,182**
Other comprehensive income	-	-	3,209	-	-	**3,209**
Total comprehensive income	-	-	3,209	40,182	-	**43,391**
Capital paid-in from the State Budget	3,000	-	-	-	-	**3,000**
Transfer of profit 2023 to retained earnings	-	29,947	-	(29,947)	-	**-**
Balance as of 31 December 2024	**961,889**	**498,945**	**1,632**	**40,182**	**1,638**	**1,504,286**

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

Separate Financial Statements of the Bank
Income Statementfor the year ended 31 December
(All amounts are expressed in thousands of Euros)

	Notes	2024	2023
		EUR '000	EUR '000
Interest income calculated using the effective interest method	5	121,702	94,629
Income from the cancellation of the subsidy deferral at the expense of HBOR's operations		598	-
Interest expense	6	(47,303)	(28,271)
Net interest income		**74,997**	**66,358**
Fee and commission income	7	2,484	3,806
Fee and commission expense	7	(895)	(765)
Net fee and commission income		**1,589**	**3,041**
Net gains on financial operations	8	768	1,740
Other income		3,122	2,140
		80,476	**73,279**
Employee expenses	9 a)	(17,410)	(15,627)
Depreciation and amortisation	9 b)	(1,916)	(1,350)
Other expenses	9 c)	(9,009)	(9,067)
Subsidy costs at the expense of HBOR's operations		(3,701)	(1,475)
Impairment loss and provisions	10	(8,543)	(15,918)
Profit before income tax		**39,897**	**29,842**
Income tax	11	-	-
Profit for the year		**39,897**	**29,842**
Attributable to:			
Owner of the Bank		**39,897**	**29,842**

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

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

	2024 EUR '000	2023 EUR '000
Profit for the year	**39,897**	**29,842**
Other comprehensive income		
Items that are not transferred subsequently to profit or loss:		
Unrealised actuarial (losses)	(592)	(1,450)
Total items that are not transferred subsequently to profit or loss	**(592)**	**(1,450)**
Items that may be reclassified subsequently to profit or loss:		
Net changes in financial assets at fair value through other comprehensive income	3,665	4,936
Total items that may be reclassified subsequently to profit or loss	**3,665**	**4,936**
Other comprehensive income after income tax	**3,073**	**3,486**
Total comprehensive income after income tax	**42,970**	**33,328**
Attributable to:		
Owner of the Bank	**42,970**	**33,328**

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

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

	Notes	2024 EUR '000	2023 EUR '000
Assets			
Cash on hand and current accounts with banks	12	45,543	41,543
Deposits with other banks	13	90,410	69,456
Loans to financial institutions	14	1,225,809	1,248,881
Loans to other customers	15	2,308,436	2,351,196
Financial assets at fair value through profit or loss	16	67,047	52,922
Financial assets at fair value through other comprehensive income	17	239,222	228,858
Investments in subsidiaries	18	7,449	7,449
Property, plant and equipment and intangible assets	19	4,882	4,723
Foreclosed assets	20	2,140	2,291
Other assets	21	4,967	11,365
Total assets		**3,995,905**	**4,018,684**
Liabilities			
Deposits from customers	22	95,512	194,876
Borrowings	23	2,288,268	2,251,176
Provisions for guarantees, commitments and other liabilities	24	23,368	24,380
Other liabilities	25	85,264	90,729
Total liabilities		**2,492,412**	**2,561,161**
Equity			
Founder's capital	26	961,873	958,873
Retained earnings and reserves		497,955	468,113
Other reserves		2,130	(943)
Profit for the year		39,897	29,842
Guarantee fund	27	1,638	1,638
Total equity		**1,503,493**	**1,457,523**
Total liabilities and total equity		**3,995,905**	**4,018,684**

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

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

	Notes	2024 EUR '000	2023 EUR '000
Operating activities			
Profit before income tax		39,897	29,842
Adjustments to reconcile to net cash from and used in operating activities:			
Depreciation and amortisation		1,916	1,350
Impairment loss and provisions		8,543	15,918
Subsidy cost at the expense of HBOR's operations		3,701	1,475
Accrued interest		(721)	(5,259)
Deferred fees		5,233	(159)
Net (loss)/gains from trading with derivative financial instruments		390	(66)
Other changes in assets at fair value		787	(30,089)
Operating profit/(loss) before working capital changes		*59,746*	*13,012*
Changes in operating assets and liabilities:			
Net (increase) in deposits with other banks, before impairment		(20,915)	(68,241)
Net decrease/(increase)/decrease in loans to financial institutions, before impairment		20,211	(319,205)
Net decrease/(increase) in loans to other customers, before impairment		37,076	(49,331)
Net decrease in foreclosed assets		151	818
Net decrease/(increase) in other assets, before impairment		5,247	(7,729)
Net (decrease)/increase in deposits from banks and companies		(99,313)	58,806
Net (decrease)/increase in other liabilities, before provisions		(5,465)	4,043
Net cash (used in) operating activities		**(3,262)**	**(367,827)**
Investment activities			
Purchase of financial assets at fair value through profit or loss income		(14,924)	(5,001)
Sale of financial assets at fair value through profit or loss		-	-
Purchase of financial assets at fair value through other comprehensive income		(117,307)	(98,876)
Sale of financial assets at fair value through other comprehensive income		110,103	225,373
Net purchase of property, plant and equipment and intangible assets		(1,238)	(767)
Net cash (used in)/provided from investment activities		**(23,366)**	**120,729**
Financing activities			
Increase in founder's capital		3,000	2,654
Increase in borrowings – withdrawn funds		689,684	653,112
Decrease in borrowings – repayments of principle		(655,843)	(593,361)
Other		(7,198)	(1,468)
Net cash provided from financing activities		**29,643**	**60,937**
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		970	(763)
Net effect		**970**	**(763)**
Net increase/(decrease) in cash and cash equivalents		3,985	(186,924)
Cash and cash equivalents balance as of 1 January, before impairment		41,701	228,625
Net increase/(decrease) in cash and cash equivalents		3,985	(186,924)
Cash and cash equivalents balance as at 31 December, before impairment	**12**	**45,686**	**41,701**
Additional note – operating activities			
Interest paid		43,412	25,502
Interest received		101,347	73,733

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

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

	Founder's capital EUR '000	Retained earnings and re-serves EUR '000	Other reserves EUR '000	Profit for the year EUR '000	Guarantee fund EUR '000	Total EUR '000
Balance as at 1 January 2023	**956,219**	**443,404**	**(4,429)**	**24,709**	**1,638**	**1,421,541**
Profit for the year	-	-	-	29,842	-	**29,842**
Other comprehensive income	-	-	3,486	-	-	**3,486**
Total comprehensive income	-	-	3,486	29,842	-	**33,328**
Capital paid-in from the State Budget	2,654	-	-	-	-	**2,654**
Transfer of profit 2022 to retained earnings	-	24,709	-	(24,709)	-	**-**
Balance as at 31 December 2023	**958,873**	**468,113**	**(943)**	**29,842**	**1,638**	**1,457,523**
Profit for the year	-	-	-	39,897	-	**39,897**
Other comprehensive income	-	-	3,073	-	-	**3,073**
Total comprehensive income	-	-	3,073	39,897	-	**42,970**
Capital paid-in from the State Budget	3,000	-	-	-	-	**3,000**
Transfer of profit 2023 to retained earnings	-	29,842	-	(29,842)	-	**-**
Balance as at 31 December 2024	**961,873**	**497,955**	**2,130**	**39,897**	**1,638**	**1,503,493**

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024

(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 31 December 2024, the Group had 466 employees (31 December 2023: 428 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.

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)

(All amounts are expressed in thousands of Euros)

1. General information (continued)

1.2. Bank (continued):

Supervisory Board
As of 31 December 2024, members of the Supervisory Board were as follows:

- Marko Primorac, PhD, associate professor, Deputy Prime Minister of the Republic of Croatia and Minister of Finance - ex officio President of the Supervisory Board,
- Ante Šušnjar, Minister of the Economy – ex officio Deputy President of the Supervisory Board,
- Šime Erlić, Minister of Regional Development and EU Funds,
- Branko Bačić, Deputy Prime Minister of the Republic of Croatia and Minister of Physical Planning, Construction and State Assets,
- Marija Vučković, MSc, Minister of Environmental Protection and Green Transition,
- Josip Dabro, Deputy Prime Minister of the Republic of Croatia and Minister of Agriculture, Forestry and Fisheries,
- Luka Burilović, PhD, Chairman of the Croatian Chamber of Economy – ex officio Member of the Supervisory Board,
- Branka Juričev-Martinčev, member of Parliament,
- Predrag Štromar, member of Parliament,
- Boris Piližota, MSc, member of Parliament.

After the reporting period, the Government of the Republic of Croatia, at its meeting held on 13 March 2025, made a Decision on the appointment of David Vlajčić, Deputy Prime Minister of the Republic of Croatia and Minister of Agriculture, Forestry and Fisheries, as a member of the Supervisory Board of the Croatian Bank for Reconstruction and Development. Prior to that, the Government of the Republic of Croatia, at the same meeting, made a Decision on the dismissal of Josip Dabro, as a member of the Supervisory Board of the Croatian Bank for Reconstruction and Development.

Pursuant to the aforementioned, HBOR's Supervisory Board has consisted of the following members as of 13 March 2025:

- Marko Primorac, PhD, associate professor, Minister of Finance - ex officio President of the Supervisory Board,
- Ante Šušnjar, Minister of the Economy – ex officio Deputy President of the Supervisory Board,
- Šime Erlić, Minister of Regional Development and EU Funds,
- Branko Bačić, Deputy Prime Minister of the Republic of Croatia and Minister of Physical Planning, Construction and State Assets,
- Marija Vučković, MSc, Minister of Environmental Protection and Green Transition,
- David Vlajčić, Deputy Prime Minister of the Republic of Croatia and Minister of Agriculture, Forestry and Fisheries,
- Luka Burilović, PhD, Chairman of the Croatian Chamber of Economy – ex officio Member of the Supervisory Board,
- Branka Juričev-Martinčev, member of Parliament,
- Predrag Štromar, member of Parliament,
- Boris Piližota, MSc, 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,
- Alan Herjavec, MSc, Member of the Management Board, and
- Josip Pavković, Member of the Management Board.

As of 31 December 2024, HBOR had 446 employees (31 December 2023: 409 employees).

1. General information (continued)

1.2. Bank (continued):

Audit Committee
As of 31 December 2024, 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 year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

2. Basis of Preparation of the Financial Statements

2.1. Statement of compliance

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. They were authorised for issue by the Bank's Management Board on 20 February 2025.

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.

3. Use of judgements and estimates

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

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

3. Use of judgements and estimates (continued)

Judgements

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

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2024 is included in the following notes

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

4. Summary of significant accounting policies

4.1. Significant accounting policies

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

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

A. Basis of consolidation

Subsidiaries

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

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

Non-controlling interests

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

A. Basis of consolidation (continued)

Loss of control

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

Transactions eliminated on consolidation

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

B. Foreign currency transactions and foreign currency clause

Funds and sources of funds that are denominated in another currency or are indexed to the currency clause are converted by HBOR into the equivalent value in EUR at the middle exchange rate of HBOR or another agreed exchange rate on the reporting date.

Revenues and expenditures in another currency are converted at the exchange rate on the transaction date. The resulting foreign exchange gains or losses are recorded in the Profit or Loss Account in net figures.

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

An overview of the euro exchange rate development in relation to the dollar exchange rate according to the middle exchange rate of HBOR that was used in compiling the financial statements on the reporting date is:

31 December 2024	EUR 1 = USD 1.0444
31 December 2023	EUR 1 = USD 1.10500

C. Interest income and expense

Effective interest rate

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

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

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

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

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

C. Interest income and expense (continued)

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

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

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

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

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

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

D. Fee and commission income

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

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

E. Leases

(a) The Group as a lessee

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

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

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

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

Lease payments included in the measurement of the lease liability include the following payments that have not been settled by the first day of the lease term:
a) fixed payments;
b) variable payments that depend on a specific index or rate;
c) amounts expected to be paid on behalf of the guaranteed residual value;
d) the price of using the redemption option if there is a high probability of using that option; and
e) penalties for termination of lease.

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

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

E. Leases (continued)

(a) The Group as a lessee (continued)

Short-term leases and leases of low value assets

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

The Group had no financial leases in its portfolio.

(b) The Group as a lessor

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

F. Income tax

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

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

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities

i. Recognition and initial measurement

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

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

ii. Classification

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

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at fair value through other comprehensive income only if it meets both of the following conditions and is not designated as at Fair value through profit or loss:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

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

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

Business models

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. All financial assets, except for investments in equity securities classified in the category of investments in associates and subsidiary with more than 20% of voting power or control, are grouped in business models which reflects how the Group manages the group of financial assets to realise certain business objective and to generate cash flows.

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

ii. Classification (continued)

Business models of the Group are:

- Business model, whose objective is to hold assets for the collection of contractual cash flows – it includes all financial assets held for the purpose of collection of contractual cash flows over the lifetime of the financial instrument.
  For the purpose of classification in this business model, financial assets goes through the SPPI (Solely payment of principal and interest) test, and the following financial assets are allocated to this model:
  - current accounts with banks,
  - deposits with banks,
  - loans and reversed repo placements,
  - other receivables.

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

- Business model aimed to collect the contractual cash flows and sale of financial assets – it includes financial assets held for the purpose of collecting the agreed cash flows and sale of financial assets.
  The following financial assets are allocated to the business model for the purpose of collection and sale:
  - Debt securities (pass SPPI test),
  - Equity securities (fail SPPI test),
  - Shares in investment funds (fail SPPI test),

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

- Business model under which financial assets are measured at fair value through profit and loss account (fail SPPI test) – combines all financial assets that are not held under the previously mentioned two business models.
  Financial assets under this business model are managed for the purpose of generating cash flows from the sale of assets and generating short-term profit.

iii. SPPI test

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

iii. SPPI test (continued)

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

SPPI test is performed:

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

iv. Reclassification of financial assets

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

v. Derecognition

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

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

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

v. Derecognition (continued)

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

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

vi. Modification of financial assets

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

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

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

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

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

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

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

Financial assets recognised as POCI assets on the following reporting dates are allocated to Stage 2 according to credit impairment criteria or remain allocated to Stage 3 until derecognition.

viii. Fair value measurement

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

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

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

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

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

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

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

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

viii. Fair value measurement (continued)

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

In accordance with the above, the carrying amount of money and balances on transaction accounts are generally stated approximately at their fair values.

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

Loans and advances to banks and other customers are presented net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. When considering the fair value, subsidised interest is also taken into account, which is presented in the discounted amount as deferred recognition of interest income in other liabilities.

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

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

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

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

ix. Impairment

Impairment of financial assets is recognised under the model of expected credit losses for assets that are subsequently measured at amortised cost and assets that are subsequently measured at fair value through other comprehensive income.
Impairment is performed during the accounting periods and at the year end at the balance sheet date, and the effects of impairment are stated for each asset individually in the statement on financial position, other comprehensive income and statement on profit and loss.

Impairment is performed by applying the general and simplified approach.

According to the **general approach** of impairment, financial assets are allocated at initial recognition to:
- Stage 1 – financial assets with no significant credit risk or
- POCI assets as financial assets that are purchased or originally credit impaired that are allocated to stage 3.

At the future reporting dates, all financial assets that have not been recognised as POCI assets are allocated in risk categories depending on the assessment whether significant increase in credit risk occurred and in accordance with other credit impairment criteria to three stages:
Stage 1 – financial instruments with low credit risk,
Stage 2 – financial instruments of clients where significant increase in credit risk is identified since initial recognition to this stage or
Stage 3 – financial instruments of clients in default.

Financial assets recognised as POCI assets on the following reporting dates are allocated to Stage 2 according to credit impairment criteria or remain allocated to Stage 3 until derecognition.

Impairment corresponds to the amount of expected credit losses in a twelve-month period for financial assets classified to Stage 1, or to the amount of expected credit losses during the lifetime of the instrument if the financial assets are classified to Stage 2 and Stage 3.

At this point, the credit loss is the difference between all contracted cash flows and all cash flows expected from the debtors, discounted to present value by applying the original effective interest rate, or, in the case of POCI assets, by applying the effective interest rate adjusted for credit risk.

In the case of short-term financial assets with agreed maturity of one year or less and the financial assets with the period in which future cash flows are expected is less than one year from the balance sheet date, the reduction of expected credit loss to the present value is not carried out.

For financial assets that are subsequently measured at amortised cost, impairment is recognised as an expense in the income statement, and impairment provisions reduce the carrying amount of the financial asset in the statement of financial position. Provisions for impairment are reduced or cancelled in the event of a reduction in expected credit losses or due to the collection of receivables in the statement of financial position and are simultaneously recognised as income from the cancellation of provisions or income upon collection in the profit and loss account.

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

ix. Impairment (continued)

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

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

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

Financial assets classified as assets at fair value through the Profit or Loss are initially and subsequently measured at the established fair value and are not subject to impairment; the fair value of assets is, however, established in accordance with the internal documents that regulate the methods of determining the value of financial instruments until derecognition of financial instruments.
Decrease or increase in the fair value of these financial assets is recorded through the increase or decrease in their carrying amount in the Statement of Financial Position, whereas gains or losses resulting from the change in the fair value are recognised in the Statement on Profit or Loss.

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

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

At the future reporting dates, all financial assets, including POCI assets, are allocated exclusively in accordance with the credit impairment criteria to Stage 2 and Stage 3.

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

ix. Impairment (continued)

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

x. Financial assets-categories

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

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

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

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

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

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

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

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

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

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

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

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

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

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

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

In its portfolio, HBOR also has loans at interest rates that are lower than market interest rates, which have been approved with a subsidy from HBOR. These loans are stated in accordance with IFRS 9.

A non-market interest rate is any interest rate that is lower than the market interest rate as defined by the Ordinance on the Implementation, Accounting Records and Accounting Reports on Interest Rate Subsidies at the Expense of HBOR.

Non-market interest rate loans are initially recognised at the present value of future cash flows (including the contracted interest minus HBOR’s subsidy) discounted at market interest rates. The difference between the obtained value and the cash outflow is HBOR’s subsidy and is recognised as a loss in the profit and loss account in the period when the loan is entered into HBOR's business books.

Interest income on non-market interest rate loans is calculated using the effective interest rate method. At the same time, the income from the nominal interest rate on loans and the amortisation of recognised discount (loss) at initial recognition is recognised in the total interest income in the statement of comprehensive income.

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

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

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

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

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

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

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

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

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

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

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

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

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

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

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

Investments are broken down as follows:
1) investment without significant influence – equity stake below 20 %,
2) investment in associates – significant influence,
3) investment in subsidiaries – controlling influence.

When preparing separate and consolidated financial statements, investments in associates and subsidiaries are stated either:
1) at acquisition cost, or
2) in accordance with IFRS 9, or
3) using the equity method.

The same accounting treatment is used for every investment category.

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

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

Investments without significant influence – equity stake below 20 %
Equity securities are allocated to a business model whose purpose is to collect the contractual cash flows and to sell the financial assets and fail the SPPI test in accordance with the Methodology for the Classification and Measurement of Financial Instruments. Therefore, equity securities are classified to the assets subsequently measured at fair value through profit or loss and are initially and subsequently measured at fair value.

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

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

Equity securities (continued)

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

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

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

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

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

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

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

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

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

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

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

Derivative financial instruments (continued)

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

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

HBOR does not hold or issue derivatives for speculative purposes.

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

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

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

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

G. Financial assets and financial liabilities (continued)

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

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

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

H. Property, plant and equipment and intangible assets

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

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

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

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

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

Land is not depreciated.

Estimated useful lives are as follows:

	2024		**2023**	
	Useful life expressed in years	Annual depreciation rates	Useful life expressed in years	Annual depreciation rates
Buildings	20	5%	20	5%
Computers	2	50%	2	50%
Furniture and Equipment	4	25%	4	25%
Vehicles	5	20%	5	20%
Other assets and investments not mentioned	10	10%	10	10%
Intangible Assets	4	25%	4	25%

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

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

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

I. Investment property

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

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

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

The estimated useful life of the assets expressed in years is as follows:	2024	2023
	years	years
Leased property	20	20

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

Investment property is stated in Note 21. Other assets due to immaterial amount.

J. Foreclosed assets

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

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

Depreciation on these assets is not charged.

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

J. Foreclosed assets (continued)

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

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

K. Deposits, borrowings and debt securities issued

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

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

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

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

L. Government grants

Interest for the borrowers qualifying for subsidized interest under the Programme of Preferential Financing through HBOR's Loan Programmes, is subsidized by the Republic of Croatia – the Ministry of Finance during the entire loan repayment period, under the Programme NRRP – Interest Subsidy Fund for SMEs, under the Programme NRRP – Interest Subsidy Fund for MIDCAP and Large entrepreneurs, under the Programme NRRP – Interest Subsidy for Public Sector, then by the Ministry of Agriculture, Forestry and Fisheries for working capital measures for entrepreneurs in the wood processing and furniture production industries.

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

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

M. Loan commitments

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

For other loan commitments:

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

Liabilities arising from loan commitments are included within provisions.

N. Employee benefits

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

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

O. Segment reporting

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

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

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

P. Managed funds for and on behalf of third parties

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

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

Revenues and expense relating to this business activity are charged to third parties, and the Bank does not have other liabilities nor bears any risks. For services provided within the framework of some of the programmes, the Bank charges a fee, whereas other programmes are performed by the Bank free of charge (see Note 29.)

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

4. Summary of significant accounting policies (continued)

4.1. Significant accounting policies (continued)

R. Subsidising interest rates at the expense of HBOR's operations

In the reporting year, HBOR introduced a new product of interest rate subsidy at the expense of HBOR's operations. The funds for subsidising interest rates are provided by HBOR from its own sources.

Loans at a reduced interest rate that is lower than the market interest rate are hereby introduced into HBOR's portfolio (see 4.1. G. x. Loans).

In accordance with the requirements of the standard, such a financial instrument is initially recognised at fair value defined as the present value of the expected cash flows discounted at the market interest rate, whereas the difference between that amount and the granted loan amount is recognised as an expense for the period (link to the position in the Profit and Loss Account: "Subsidy cost at the expense of HBOR's operations").

Interest income on non-market interest rate loans is calculated by applying the effective interest rate method on the remaining balance of debt in certain accounting periods, and the discount recognised during initial recognition is amortised throughout the lifetime of the instrument, which directly increases the value of interest income in the recognition periods (link to the position in the Profit and Loss Account: "Income from the cancellation of the subsidy deferral at the expense of HBOR's operations"; in 2023, it was not stated because of the start of the implementation of the product).

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

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

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

- Amendments to IAS 1 Presentation of Financial Statements:
  - Classification of Liabilities as Current or Non-current
  - 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).

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

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

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

- Amendments to IAS 21 the Effects of Changes in Foreign Exchange Rates: Lack of Exchangeabillity (effective for annual periods beginning on or after 1 January 2025);

Group expects that the adoption of the following new standard and amendments to existing standard will not lead to significant changes in the Group's financial statements.

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

IFRS currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards and amendments to existing standards, the adoption of which the European Union on 31 December 2024 has not yet decided (the effective dates set out below refer to IFRSs issued by the IASB):

- Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7) (effective for annual periods beginning on or after 1 January 2026);

- Annual Improvements Volume 11 (effective for annual periods beginning on or after 1 January 2026);

- Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7) (effective for annual periods beginning on or after 1 January 2026);

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

4. Summary of significant accounting policies (continued)

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

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

- New IFRS 18 Presentation and Disclosure in Financial Statements (effective for annual periods beginning on or after 1 January 2027);

- New IFRS 19 Subsidiaries without Public Accountability: Disclosures (effective for annual periods beginning on or after 1 January 2027).

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.

IFRS 18 Presentation and Disclosure in Financial Statements, which was issued by the IASB in April 2024 supersedes IAS 1 and will result in major consequential amendments to IFRS Accounting Standards including *IAS 8 Basis of Preparation of Financial Statements (renamed from Accounting Policies, Changes in Accounting Estimates and Errors)*. Even though IFRS 18 will not have any effect on the recognition and measurement of items in the separate / consolidated financial statements, it is expected to have a significant effect on the presentation and disclosure of certain items. These changes include categorisation and subtotals in the statement of profit or loss, aggregation/disaggregation and labelling of information, and disclosure of management-defined performance measures.

The Group does not expect to be eligible to apply IFRS 19.

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

5. Interest income calculated using the effective interest method

Interest income by borrowers:

	Group		Bank	
	2024 EUR '000	2023 EUR '000	2024 EUR '000	2023 EUR '000
Public sector	23,650	21,912	23,493	21,740
State-owned companies	7,344	8,135	7,344	8,135
Foreign companies	361	89	361	89
Domestic companies	56,046	44,126	56,041	44,126
Domestic financial institutions	23,909	14,508	23,813	14,444
Foreign financial institutions	1,925	2,385	1,925	2,385
Penalty interest	7,056	2,018	7,056	2,018
Other	1,669	1,692	1,669	1,692
	121,960	**94,865**	**121,702**	**94,629**

Interest income by type of facility:

	Group		Bank	
	2024 EUR '000	2023 EUR '000	2024 EUR '000	2023 EUR '000
Interest on loans				
- financial institutions	22,543	14,327	22,543	14,327
- other customers	89,808	73,429	89,808	73,429
	112,351	87,756	112,351	87,756
Investments in securities	6,316	4,536	6,154	4,364
- *Bonds of the Republic of Croatia*	5,616	*3,580*	5,459	*3,412*
- *Corporate bonds*	13	*13*	8	*9*
- *Treasury bills of the Ministry of Finance*	687	*943*	687	*943*
Deposits	3,293	2,573	3,197	2,509
	121,960	**94,865**	**121,702**	**94,629**

The main difference between interest income and interest received or collected (see Statement of Cash Flows) mostly relates to the income in respect to interest subsidies inflows that are recorded upon payment. The discounted amount of the interest subsidies provided for the final user is presented as deferred interest income (see Note 25 Other liabilities) and is recognized in profit or loss on a time basis during the repayment of the loan. Interest income earned on this basis in 2024 amounts to EUR 17,607 thousand (31 December 2023: EUR 13,486 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

6. Interest expense

Interest expense by type of payee:

	Group		Bank	
	2024 EUR '000	2023 EUR '000	2024 EUR '000	2023 EUR '000
Domestic financial institutions	2,301	305	2,301	305
Foreign financial institutions	31,424	24,600	31,424	24,600
State units	13,542	3,353	13,542	3,353
Other	42	13	36	13
	47,309	**28,271**	**47,303**	**28,271**

Interest expense by type of facility:

	Group		Bank	
	2024 EUR '000	2023 EUR '000	2024 EUR '000	2023 EUR '000
Borrowings	43,715	26,815	43,715	26,815
Deposits	3,552	1,443	3,552	1,443
Leases – interest expenses on long term contracts	42	13	36	13
	47,309	**28,271**	**47,303**	**28,271**

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.

7. Net fee and commission income

	Group and Bank	
	2024 EUR '000	2023 EUR '000
Fee and commission income from contracts with customers:		
Asset management - from managed funds for and on behalf of third parties	1,993	2,809
From payment operations	52	35
Other	17	2
Total fee and commission income from contracts with customers	**2,062**	**2,846**
From issued guarantees	422	960
Total fee and commission income	**2,484**	**3,806**
Fee and commission expense	(895)	(765)
Net fee and commission income	**1,589**	**3,041**

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

8. Net gains/(losses) on financial operations

	Group		Bank	
	2024 EUR '000	2023 EUR '000	2024 EUR '000	2023 EUR '000
Net foreign exchange gains/(losses) on foreign currency assets:				
Cash on hand, accounts at banks and due from banks	66	(2)	66	(2)
Loans given to financial institutions and other customers	398	(1,006)	398	(1,006)
Financial assets at fair value through profit or loss	242	(158)	242	(158)
Other	644	(174)	644	(174)
	1,350	(1,340)	1,350	(1,340)
Net foreign exchange gains/(losses) on foreign currency liabilities:				
Deposits	(878)	480	(878)	480
Borrowings and issued long-term securities	(1,070)	796	(1,070)	796
Other	90	(24)	91	(24)
	(1,858)	1,252	(1,857)	1,252
Net foreign exchange gains/(losses) on foreign currency assets and liabilities	**(508)**	**(88)**	**(507)**	**(88)**
Gains/(losses) on assets at fair value through profit or loss	(1,354)	752	(1,354)	752
Gain/(Loss) from trading with derivative financial instruments	390	(66)	390	(66)
Realized (losses) on financial assets at fair value through other comprehensive income	-	(5)	-	(5)
Interest income-Loans at FVPL	2,239	1,147	2,239	1,147
Net gains/(losses) on financial operations	**767**	**1,740**	**768**	**1,740**

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

9. Operating expenses

Operating expenses can be shown as follows:

	Group		Bank	
	2024 EUR '000	2023 EUR '000	2024 EUR '000	2023 EUR '000
9 a) Employee expenses	18,013	16,171	17,410	15,627
9 b) Depreciation	1,998	1,409	1,916	1,350
9 c) Other expenses	10,939	11,420	9,009	9,067
From what:				
Administration expenses	*4,103*	*2,824*	*4,018*	*2,758*
Material and services	*4,550*	*4,734*	*4,196*	*4,393*
Other expenses	*2,286*	*3,862*	*795*	*1,916*
	30,950	**29,000**	**28,335**	**26,044**

Material and services contain audit costs as follows:

	Group		Bank	
	2024 EUR '000	2023 EUR '000	2024 EUR '000	2023 EUR '000
Audit services	130	108	112	75
Non-audit services	26	-	26	-
Audit expenses	**156**	**108**	**138**	**75**

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

10. Impairment loss and provisions

The provision for impairment losses on placements may be summarized as follows:

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

	Group		Bank	
	2024	2023	2024	2023
	EUR '000	EUR '000	EUR '000	EUR '000
Impairment losses on cash on hand and due from financial institutions	(15)	(646)	(15)	(646)
Impairment losses on deposits with other banks	16	216	14	218
Impairment losses on loans to financial institutions	911	(1,346)	911	(1,346)
Impairment losses on loans to other customers and interest	(2,583)	5,360	(2,583)	5,360
Modification (gain)/loss – financial institutions	(460)	(439)	(460)	(439)
Modification (gain)/loss – other customers	(1,031)	(1,365)	(1,031)	(1,365)
POCI assets – fair value adjustment at initial recognition	13,010	10,836	13,010	10,836
Impairment of financial assets at fair value through other comprehensive income	(29)	(163)	(28)	(164)
Impairment losses on other assets	314	(195)	315	(193)
Provisions for commitments	1,883	1,520	1,883	1,520
Provision for guarantees	(3,517)	2,375	(3,517)	2,375
Total	**8,499**	**16,153**	**8,499**	**16,156**

b) Other impairment losses and provisions

	Group		Bank	
	2024	2023	2024	2023
	EUR '000	EUR '000	EUR '000	EUR '000
Impairment losses on foreclosed assets	-	179	-	179
Provision for other liabilities	120	71	120	71
Other adjustments	(76)	(488)	(76)	(488)
Total	**44**	**(238)**	**44**	**(238)**
Total	**8,543**	**15,915**	**8,543**	**15,918**

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

11. Income tax

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

	Group	
	2024	2023
	EUR '000	EUR '000
Recognised in Income Statement		
Current tax - recognised in Income Statement	(64)	(23)
Income tax	**(64)**	**(23)**
Income tax reconciliation		
Profit before tax	**40,246**	**29,970**
Profit of the Bank not subject to income tax	(39,897)	(29,842)
Profit before tax subject to income tax	**349**	**128**
Income tax at 18% rate	(57)	(16)
Income tax at 10% rate	(3)	(4)
Non-deductible expense	6	4
Tax-exempt income	(10)	(7)
Total income tax expense	**(64)**	**(23)**

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

12. Cash on hand and current accounts with banks

	Group		Bank	
	31 December 2024 EUR '000	31 December 2023 EUR '000	31 December 2024 EUR '000	31 December 2023 EUR '000
Account with the Croatian National Bank	2	286	2	286
Accounts with the domestic banks	45,800	41,685	45,281	41,094
Accounts with foreign banks	174	210	174	210
Foreign currency account – domestic banks	33	16	33	16
Foreign currency account – foreign banks	196	95	196	95
	46,205	42,292	45,686	41,701
Loss allowances	(144)	(159)	(143)	(158)
	46,061	**42,133**	**45,543**	**41,543**

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

31 December 2024				**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	46,205	-	-	**46,205**	45,686	-	-	**45,686**
Loss allowances	(144)	-	-	**(144)**	(143)	-	-	**(143)**
Balance as of 31 December 2024	**46,061**	**-**	**-**	**46,061**	**45,543**	**-**	**-**	**45,543**

31 December 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	42,292	-	-	**42,292**	41,701	-	-	**41,701**
Loss allowances	(159)	-	-	**(159)**	(158)	-	-	**(158)**
Balance as of 31 December 2023	**42,133**	**-**	**-**	**42,133**	**41,543**	**-**	**-**	**41,543**

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

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

	Group		Bank	
	Jan 1 – Dec 31, 2024 EUR '000	Jan 1 - Dec 31, 2023 EUR '000	Jan 1 - Dec 31, 2024 EUR '000	Jan 1 - Dec 31, 2023 EUR '000
Balance as of 1 January	159	805	158	804
Net (decrease) of loss allowances on amounts due from banks	(15)	(646)	(15)	(646)
Total recognised through Income Statement (Note 10)	*(15)*	*(646)*	*(15)*	*(646)*
Balance at the end of the reporting period	**144**	**159**	**143**	**158**

13. Deposits with other banks

	Group		Bank	
	31 December 2024 EUR '000	31 December 2023 EUR '000	31 December 2024 EUR '000	31 December 2023 EUR '000
Deposits with foreign banks	22,615	33,647	22,615	33,647
Deposits with domestic banks	71,451	38,300	68,001	36,000
Accrued interest	42	35	26	27
	94,108	**71,982**	**90,642**	**69,674**
Loss allowances	(237)	(221)	(232)	(218)
	93,871	**71,761**	**90,410**	**69,456**

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

31 December 2024	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	94,108	-	-	**94,108**	90,642	-	-	**90,642**
Loss allowances	(237)	-	-	**(237)**	(232)	-	-	**(232)**
Balance as of 31 December 2024	**93,871**	**-**	**-**	**93,871**	**90,410**	**-**	**-**	**90,410**

31 December 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	71,982	-	-	**71,982**	69,674	-	-	**69,674**
Loss allowances	(221)	-	-	**(221)**	(218)	-	-	**(218)**
Balance as of 31 December 2023	**71,761**	**-**	**-**	**71,761**	**69,456**	**-**	**-**	**69,456**

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

13. Deposits with other banks (continued)

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

	Group		Bank	
	Jan 1 – Dec 31, 2024	Jan 1 - Dec 31, 2023	Jan 1 – Dec 31, 2024	Jan 1 - Dec 31, 2023
	EUR '000	EUR '000	EUR '000	EUR '000
Balance as of 1 January	221	5	218	-
Net increase of loss allowances on deposits with other banks	16	216	14	218
Total recognised through Income Statement (Note 10)	*16*	*216*	*14*	*218*
Balance at the end of the reporting period	**237**	**221**	**232**	**218**

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

14. Loans to financial institutions

	Group and Bank 31 December 2024 EUR '000	Group and Bank 31 December 2023 EUR '000
Long-term loans under loan programmes	1,143,620	1,062,831
Short-term loans and reverse repo transactions	92,000	193,000
Accrued interest	891	2,384
Deferred recognition of loan origination fees	(3,064)	(2,607)
	1,233,447	1,255,608
Loss allowances	(7,638)	(6,727)
	1,225,809	**1,248,881**

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

31 December 2024	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	Group and Bank Total EUR '000
Gross amount	1,204,042	28,337	1,068	**1,233,447**
Loss allowances	(4,523)	(2,295)	(820)	**(7,638)**
Balance as of 31 December 2024	**1,199,519**	**26,042**	**248**	**1,225,809**

31 December 2023	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	Group and Bank Total EUR '000
Gross amount	1,238,052	16,420	1,136	**1,255,608**
Loss allowances	(4,163)	(1,707)	(857)	**(6,727)**
Balance as of 31 December 2023	**1,233,889**	**14,713**	**279**	**1,248,881**

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

14. Loans to financial institutions (continued)

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

	Group and Bank Jan 1 - Dec 31, 2024 EUR '000	Group and Bank Jan 1 - Dec 31, 2023 EUR '000
Balance as of 1 January	6,727	8,078
Adjustment of initial balance	-	(5)
Net increase/(decrease) of loss allowances on loans to financial institutions	911	(1,346)
Total recognised through Income Statement (Note 10)	*911*	*(1,346)*
Balance at the end of the reporting period	**7,638**	**6,727**

14. Loans to financial institutions (continued)

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

	Group and Bank 31 December 2024 EUR '000	Group and Bank 31 December 2023 EUR '000
EU Projects	52,086	54,217
Financial Restructuring	4,602	3,429
Pre-Export Finance	135	1,535
Public Sector Investment	190,432	147,368
Private Sector Investment	201,756	114,438
Youth, Female, Start-up Entrepreneurship	12,560	11,619
Working Capital	14,146	5,904
Working Capital – COVID 19 measures and CRISIS 2022	3,094	4,942
Loan programme for reconstruction and development of the economy	55,484	76,634
Export financing	121,758	144,858
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	77,482	96,535
Loan programme for small and medium-sized enterprises	409,954	401,093
Loan programme for war-torn and demolished housing and business facilities	131	259
Other	92,000	193,000
Accrued interest	891	2,384
Deferred recognition of loan fees	(3,064)	(2,607)
	1,233,447	1,255,608
Loss allowances	(7,638)	(6,727)
	1,225,809	**1,248,881**

Average interest rates for total loans to financial institutions are stated at 0.56% (31 December 2023: 0.36%) and average interests rates for loans under HBOR loan programmes excluding the liquidity reserve are stated at 0.50% (31 December 2023: 0.32%).

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 92,000 thousand (31 December 2023: EUR 193,000 thousand). The above placements are collateralized by securities in the amount of EUR 97,235 thousand (31 December 2023: EUR 207,190 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

15. Loans to other customers

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

	Group and Bank 31 December 2024 EUR '000	Group and Bank 31 December 2023 EUR '000
Domestic companies	1,806,108	1,777,568
State-owned companies	171,981	217,424
Public sector	701,615	726,253
Foreign companies	8,596	-
Other	53,840	62,307
Accrued interest	51,552	47,646
Deferred recognition of loan origination fees	(13,714)	(9,245)
	2,779,978	2,821,953
Loss allowances	(471,542)	(470,757)
	2,308,436	**2,351,196**

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

31 December 2024	Stage 1	Stage 2	Stage 3	POCI Stage 2	POCI Stage 3	Group and Bank Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Gross amount	1,784,722	331,819	434,597	39,892	188,948	**2,779,978**
Loss allowances	(44,398)	(102,830)	(277,261)	(761)	(46,292)	**(471,542)**
Balance as of 31 December 2024	**1,740,324**	**228,989**	**157,336**	**39,131**	**142,656**	**2,308,436**

31 December 2023	Stage 1	Stage 2	Stage 3	POCI Stage 2	POCI Stage 3	Group and Bank Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Gross amount	1,816,277	388,593	400,035	6,213	210,835	**2,821,953**
Loss allowances	(42,543)	(128,588)	(267,359)	(750)	(31,517)	**(470,757)**
Balance as of 31 December 2023	**1,773,734**	**260,005**	**132,676**	**5,463**	**179,318**	**2,351,196**

15. Loans to other customers (continued)

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

	Group and Bank	
	Jan 1 - Dec 31, 2024 EUR '000	Jan 1 - Dec 31, 2023 EUR '000
Balance as of 1 January	470,757	458,561
Adjustment of initial balance	-	489
Net (decrease)/increase of loss allowances on loans to other customers and interest	(2,583)	5,360
Total recognised through Income Statement (Note 10)	*(2,583)*	*5,360*
Net foreign exchange gain/loss on loss allowances	537	(353)
Write-offs	(2,235)	(3,392)
Transfer to off-balance sheet records	(3,984)	(2,311)
Unwinding – changes due to the lapse of time	315	3,996
Interest transferred from the off-balance sheet records and other	8,735	8,407
Balance at the end of the reporting period	**471,542**	**470,757**

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 2,235 thousand relates mostly to the permanent derecognition from the business records, partial discharge of debt and reaching of settlement 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 3,984 thousand was performed on the basis of the prescribed criteria in the Methodology for the Write-off of Receivables.

Notes to the Financial Statements which include significant accounting policies and other explanations for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

15. Loans to other customers (continued)

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

	Group and Bank	
	31 December 2024 EUR '000	31 December 2023 EUR '000
EU Projects	97,039	72,901
Financial Restructuring	105,324	121,229
Pre-Export Finance	3,090	1,827
Public Sector Investment	307,501	292,790
Private Sector Investment	401,241	240,302
Youth, Female, Start-up Entrepreneurship	9,271	8,827
Working Capital	239,521	220,501
Working Capital – COVID 19 measures and CRISIS 2022	435,086	551,850
Loan programme for reconstruction and development of the economy	203,649	225,071
Export financing	377,654	410,396
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	445,375	505,595
Loan programme for small and medium-sized enterprises	81,015	97,821
Other	36,374	34,442
Accrued interest	51,552	47,646
Deferred recognition of loan origination fees	(13,714)	(9,245)
	2,779,978	2,821,953
Loss allowances	(471,542)	(470,757)
	2,308,436	**2,351,196**

Average interest rates on loans to other customers are stated at 2.26% (1 January - 31 December 2023 1.87%) and average interest's rates for loans under HBOR loan programmes excluding the liquidity reserve are stated at 2.25% (1 January - 31 December 2023: 1.86%).

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

Item "Other" refers to reverse repo agreements in the total amount of EUR 1,550 thousand (31 December 2023: EUR 0 thousand). The above placements are collateralized by securities in the amount of EUR 1,640 thousand (31 December 2023: EUR 0 thousand).

16. Financial assets at fair value through profit or loss

	Group and Bank	
	31 December 2024 EUR '000	31 December 2023 EUR '000
Loans at FVPL:		
Mezzanine loans	32,233	33,698
	32,233	**33,698**
Investments in investment funds:		
Investments in investment funds at FVPL	34,529	19,171
	34,529	**19,171**
Unlisted equity instruments:		
Depository receipt - DR	42	42
	42	**42**
Derivative financial assets-positive fair value	**243**	**11**
	67,047	**52,922**

Non-listed equity securities in the amount of EUR 42 thousand (31 December 2023 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 31 December 2024, a positive fair value of derivative financial instruments was stated in the amount of EUR 243 thousand (31 December 2023: EUR 11 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

17. Financial assets at fair value through other comprehensive income

	Group		Bank	
	31 December 2024 EUR '000	31 December 2023 EUR '000	31 December 2024 EUR '000	31 December 2023 EUR '000
Debt instruments:				
Listed debt instruments:				
Bonds of the Republic of Croatia	221,308	185,225	215,756	179,243
Corporate bonds	571	303	-	-
Treasury bills of the Ministry of Finance	11,919	38,451	11,919	38,451
Accrued interest	3,304	3,177	3,262	3,121
	237,102	**227,156**	**230,937**	**220,815**
Unlisted debt instruments:				
Corporate bonds	73	81	73	81
Convertible bonds - CB	137	195	137	195
Accrued interest	2	2	2	2
	212	**278**	**212**	**278**
Equity instruments:				
Unlisted equity instruments:				
Investments in shares of foreign legal entities - SWIFT	8	8	8	8
Shares of foreign financial institutions – EIF	8,065	7,757	8,065	7,757
	8,073	**7,765**	**8,073**	**7,765**
	245,387	**235,199**	**239,222**	**228,858**

Non-listed convertible bonds (CB) of the Fortenova Group TopCo B.V. in the amount of EUR 137 thousand (31 December 2023: EUR 195 thousand) have been taken over through the Settlement under the Extraordinary Administration Proceedings against the company Agrokor d.d. et al.

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

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

31 December 2024	Group				Bank			
	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	Total EUR '000	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	Total EUR '000
Gross amount	237,177	-	137	**237,314**	231,012	-	137	**231,149**
Balance as of 31 December 2024	**237,177**	**-**	**137**	**237,314**	**231,012**	**-**	**137**	**231,149**

31 December 2023	Group				Bank			
	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	Total EUR '000	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	Total EUR '000
Gross amount	227,239	-	195	**227,434**	220,898	-	195	**221,093**
Balance as of 31 December 2023	**227,239**	**-**	**195**	**227,434**	**220,898**	**-**	**195**	**221,093**

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

	Group		Bank	
	Jan 1 – Dec 31, 2024 EUR '000	Jan 1 – Dec 31, 2023 EUR '000	Jan 1 – Dec 31, 2024 EUR '000	Jan 1 – Dec 31, 2023 EUR '000
Balance as of 1 January	454	618	442	606
Net (release) of loss allowances	(29)	(164)	(28)	(164)
Total recognised through Income Statement (Note 10)	*(29)*	*(164)*	*(28)*	*(164)*
Balance at the end of the reporting period	**425**	**454**	**414**	**442**

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

The following text contains investment breakdown:

	Date of issue	Date of maturity	Interest rate (%)	Group 31 December 2024 EUR '000	Group 31 December 2023 EUR '000	Bank 31 December 2024 EUR '000	Bank 31 December 2023 EUR '000
Debt instruments:							
Listed debt instruments:							
Bonds of the Republic of Croatia:							
RHMF-O-247E	10.7.2013.	10.7.2024.	5.75	-	25,493	-	24,905
RHMF-O-267E	15.7.2022.	15.7.2026	2.13	20,828	20,687	20,827	20,687
XS1117298916	11.3.2015.	11.3.2025.	3.0	38,711	38,512	38,711	38,512
XS1843434876	19.6.2019.	19.6.2029.	1.125	1,868	1,812	1,868	1,812
RHMF-O-257A	9.7.2015.	9.7.2025.	4.5	1,120	1,118	-	-
RHMF-O-26CA	14.12.2015.	14.12.2026.	4.25	5,147	5,180	4,069	4,098
RHMF-O-277N	12.7.2024.	12.7.2027.	3.3	40,612	-	40,612	-
RHMF-O-282A	7.2.2017.	7.2.2028.	2.875	1,586	1,562	1,333	1,316
RHMF-O-287A	5.7.2021.	5.7.2028.	0.5	5,670	-	5,670	-
RHMF-O-297A	9.7.2018.	9.7.2029.	2.38	392	385	-	-
RHMF-O-34BA	27.11.2019.	27.11.2034.	1.00	1,789	1,710	-	-
RHMF-O-347A	12.7.2024.	12.7.2034.	3.50	10,425	-	10,425	-
RHMF-O-403E	3.3.2020.	3.3.2040.	1.25	919	852	-	-
RHMF-O-253A	3.3.2020.	3.3.2025.	0.25	15,503	10,225	15,503	10,225
RHMFO-24BA	27.11.2019.	27.11.2024.	0.25	-	1,243	-	1,243
RHMF-O-253B	8.3.2023.	8.3.2025.	3.65	37,159	37,172	37,159	37,172
RHMFO33BA	24.11.2023.	24.11.2033.	3.75	39,579	39,274	39,579	39,274
Corporate bonds:							
JDGL-O-24XA	18.12.2019.	18.12.2024.	1.75	-	132	-	-
JDGL-O-29CA	3.12.2024.	3.12.2029.	4.13	399	-	-	-
HRATGRO25CA5	11.12.2020.	11.12.2025.	0.88	172	172	-	-
Treasury bills up to 182 days			3.121	11,919	4,976	11,919	4,976
Treasury bills up to 364 days			3.464-3.856	-	33,474	-	33,474
Accrued interest				3,304	3,177	3,262	3,121
				237,102	**227,156**	**230,937**	**220,815**
Unlisted debt instruments:							
Corporate bonds:							
LNGU-O-31AE	24.7.2015.	15.10.2031.	4.5	73	81	73	81
Bonds of foreign corporate:							
Fortenova Group TopCo B.V.	1.4.2019.	1.4.2029.	2.5	137	195	137	195
Accrued interest				2	2	2	2
				212	**278**	**212**	**278**
Equity instruments:							
Unlisted equity instruments:							
Investments in shares of foreign legal entities - SWIFT				8	8	8	8
Investments in shares of foreign financial institutions - EIF				8,065	7,757	8,065	7,757
				8,073	**7,765**	**8,073**	**7,765**
Total				**245,387**	**235,199**	**239,222**	**228,858**

18. Investments in subsidiaries

As at 31 December 2023, the Bank's subsidiaries are as follows:

Consolidated company	Activity	Ownership 31 December 2024	Ownership 31 December 2023	Investment 31 December 2024	Investment 31 December 2023
		%	%	EUR '000	EUR '000
Direct share					
Hrvatsko kreditno osiguranje d.d. Zagreb, Republic of Croatia	Providing insurance for company's foreign and domestic short-term receivables regarding shipments of goods and services	100%	100%	7,449	7,449
Total				**7,449**	**7,449**

Result of the subsidiary has been disclosed in Appendix – Financial performance of the HKO Group.

19. Property, plant and equipment and intangible assets

Group 31 December 2024	Buildings	Computers	Furniture, equipment and vehicles	Property, plant and equipment and intangible assets not ready for use	Total property, plant and equipment	Intangible assets	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Cost							
Balance as of 31 December 2023	**10,355**	**1,398**	**1,619**	**109**	**13,481**	**5,078**	**18,559**
Correction of opening balance	-	(9)	(6)	-	(15)	-	(15)
Balance as of 1 January 2024	**10,355**	**1,389**	**1,613**	**109**	**13,466**	**5,078**	**18,544**
Additions	113	4	28	1,245	1,390	4	1,394
Transfer from assets not yet ready for use	-	273	260	(866)	(333)	333	-
Adjustments	1	(3)	1	(3)	(4)	-	(4)
Disposals and write-offs	-	(63)	(363)	-	(426)	(1)	(427)
Returned to use	-	18	259	-	277	-	277
Balance as of 31 December 2024	**10,469**	**1,618**	**1,798**	**485**	**14,370**	**5,414**	**19,784**
Accumulated depreciation and write-off							
Balance as of 31 December 2023	**7,035**	**1,350**	**1,193**	**-**	**9,578**	**4,113**	**13,691**
Correction of opening balance	-	(9)	(6)	-	(15)	-	(15)
Balance as of 1 January 2024	**7,035**	**1,341**	**1,187**	**-**	**9,563**	**4,113**	**13,676**
Depreciation for 2024	535	83	145	-	763	397	1,160
Adjustments	-	(3)	1	-	(2)	-	(2)
Disposals and write-offs	-	(63)	(359)	-	(422)	-	(422)
Returned to use	-	18	259	-	277	-	277
Balance as of 31 December 2024	**7,570**	**1,376**	**1,233**	**-**	**10,179**	**4,510**	**14,689**
Net book value at 31 December 2024	**2,899**	**242**	**565**	**485**	**4,191**	**904**	**5,095**
Net book value at 31 December 2023	**3,320**	**48**	**426**	**109**	**3,903**	**965**	**4,868**

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

Group 31 December 2023	Buildings	Computers	Furniture, equipment and vehicles	Property, plant and equipment and intangible assets not ready for use	Total property, plant and equipment	Intangible assets	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Cost							
Balance as of 31 December 2022	**10,355**	**1,399**	**1,567**	**8**	**13,329**	**5,049**	**18,378**
Correction of opening balance	-	-	2	-	2	-	2
Additions	-	26	-	783	809	100	909
Transfer from assets not yet ready for use	-	12	144	(682)	(526)	526	-
Adjustments	-	(4)	(34)	-	(38)	(70)	(108)
Disposals and write-offs	-	(47)	(64)	-	(111)	(527)	(638)
Returned to use	-	12	4	-	16	-	16
Balance as of 31 December 2023	**10,355**	**1,398**	**1,619**	**109**	**13,481**	**5,078**	**18,559**
Accumulated depreciation and write-off							
Balance as of 31 December 2022	**6,502**	**1, 305**	**1,176**	**-**	**8,983**	**4,242**	**13,225**
Correction of opening balance	-	-	1	-	1	-	1
Depreciation for 2023	533	86	106	-	725	401	1,126
Adjustments	-	(6)	(31)	-	(37)	(3)	(40)
Disposals and write-offs	-	(47)	(63)	-	(110)	(527)	(637)
Returned to use	-	12	4	-	16	-	16
Balance as of 31 December 2023	**7,035**	**1,350**	**1,193**	**-**	**9,578**	**4,113**	**13,691**
Net book value at 31 December 2023	**3,320**	**48**	**426**	**109**	**3,903**	**965**	**4,868**
Net book value at 31 December 2022	**3,853**	**94**	**391**	**8**	**4,346**	**807**	**5,153**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

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

Bank 31 December 2024	Buildings	Computers	Furniture, equipment and vehicles	Property, plant and equipment and intangible assets not ready for use	Total property, plant and equipment	Intangible assets	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Cost							
Balance as of 31 December 2023	**10,233**	**1,294**	**1,570**	**109**	**13,206**	**4,879**	**18,085**
Correction of opening balance	-	(12)	(4)	-	(16)	-	(16)
Balance as of 1 January 2024	**10,233**	**1,282**	**1,566**	**109**	**13,190**	**4,879**	**18,069**
Additions	-	-	-	1,242	1,242	-	1,242
Transfer from assets not ready for use	-	273	260	(866)	(333)	333	-
Disposals and write-offs	-	(55)	(363)	-	(418)	-	(418)
Returned to use	-	18	259	-	277	-	277
Balance as of 31 December 2023	**10,233**	**1,518**	**1,722**	**485**	**13,958**	**5,212**	**19,170**
Accumulated depreciation and write-off							
Balance as of 31 December 2023	**6,914**	**1,268**	**1,174**	**-**	**9,356**	**4,006**	**13,362**
Correction of opening balance	-	(12)	(4)	-	(16)	-	(16)
Balance as of 1 January 2024	**6,914**	**1,256**	**1,170**	**-**	**9,340**	**4,006**	**13,346**
Depreciation for 2024	512	68	130	-	710	369	1,079
Disposals and write-offs	-	(55)	(359)	-	(414)	-	(414)
Returned to use	-	18	259	-	277	-	277
Balance as of 31 December 2024	**7,426**	**1,287**	**1,200**	**-**	**9,913**	**4,375**	**14,288**
Net book value at 31 December 2024	**2,807**	**231**	**522**	**485**	**4,045**	**837**	**4,882**
Net book value at 31 December 2023	**3,319**	**26**	**396**	**109**	**3,850**	**873**	**4,723**

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

Bank 31 December 2023	Buildings	Computers	Furniture, equipment and vehicles	Property, plant and equipment and intangible assets not ready for use	Total property, plant and equipment	Intangible assets	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Cost							
Balance as of 31 December 2022	**10,233**	**1,310**	**1,485**	**8**	**13,036**	**4,879**	**17,915**
Additions	-	-	-	784	784	-	784
Transfer from assets not ready for use	-	13	144	(683)	(526)	526	-
Disposals and write-offs	-	(41)	(63)	-	(104)	(526)	(630)
Returned to use	-	12	4	-	16	-	16
Balance as of 31 December 2023	**10,233**	**1,294**	**1,570**	**109**	**13,206**	**4,879**	**18,085**
Accumulated depreciation and write-off							
Balance as of 31 December 2022	**6,403**	**1,223**	**1,135**	**-**	**8,761**	**4,147**	**12,908**
Depreciation for 2023	511	74	97	-	682	385	1,067
Disposals and write-offs	-	(41)	(62)	-	(103)	(526)	(629)
Returned to use	-	12	4	-	16	-	16
Balance as of 31 December 2023	**6,914**	**1,268**	**1,174**	**-**	**9,356**	**4,006**	**13,362**
Net book value at 31 December 2023	**3,319**	**26**	**396**	**109**	**3,850**	**873**	**4,723**
Net book value at 31 December 2022	**3,830**	**87**	**350**	**8**	**4,275**	**732**	**5,007**

20. Foreclosed assets

	Group and Bank 31 December 2024 EUR '000	Group and Bank 31 December 2023 EUR '000
Foreclosed assets, net	2,140	2,291
	2,140	**2,291**

In 2024, acquisition of property took place with present value in the amount of EUR 260 thousand, acquisition value of EUR 260 thousand and provisions of EUR 0 thousand (in 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).

In 2024, sale of foreclosed assets took place with present value in the amount of EUR 330 thousand, acquisition value of EUR 566 thousand and provisions of EUR 236 thousand, and relates to land plot in the amount of EUR 2 thousand and buildings in the amount of EUR 328 thousand (in 2023, sale of foreclosed assets took place with present value in the amount of EUR 892 thousand, acquisition value of EUR 1,536 thousand and provisions of EUR 644 thousand and relates to land plot in the amount of EUR 836 thousand, buildings in the amount of EUR 27 thousand and apartments in the amount of EUR 29 thousand).

In 2024, foreclosed assets were transferred to lease on the item Investments in property in the amount of EUR 303 thousand (2023: EUR 140 thousand), which is presented under Other assets due to immaterial significance. In 2024, this property was depreciated in the amount of EUR 14 thousand (2023: EUR 9 thousand).

The fair value of total foreclosed assets at the beginning of the reporting period stood at EUR 4,066 thousand and the end of the reporting period at EUR 3,521 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 2024 (in 2023: increase of EUR 179 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

21. Other assets

	Group		Bank	
	31 December 2024 EUR '000	31 December 2023 EUR '000	31 December 2024 EUR '000	31 December 2023 EUR '000
Fees receivable	3,334	3,540	3,334	3,540
Other receivables	2,319	1,925	2,319	1,925
Prepaid expenses	585	492	568	477
Accrued income	1,458	3,057	1,458	3,057
Assets related to insurance contracts	683	733	-	-
Receivables for risk assessment fees	48	35	-	-
Deferred tax assets	111	140	-	-
Leased assets	1,210	2,032	1,210	2,032
Other assets	321	4,724	338	4,719
	10,069	16,678	9,227	15,750
Loss allowances	(4,268)	(4,393)	(4,260)	(4,385)
	5,801	**12,285**	**4,967**	**11,365**

Lease assets are recognised in accordance with the application of the IFRS 16 and depreciation during the year stood at EUR 822 thousand for the Group and Bank.

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

31 December 2024	Group					Bank				
	Stage 1	Stage 2	Stage 3	POCI Stage 3	Total	Stage 1	Stage 2	Stage 3	POCI Stage 3	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Gross amount	2,035	12	4,295	42	**6,384**	1,304	12	4,295	42	**5,653**
Loss allowances	(11)	(1)	(4,221)	(35)	**(4,268)**	(3)	(1)	(4,221)	(35)	**(4,260)**
Balance as of 31 December 2024	**2,024**	**11**	**74**	**7**	**2,116**	**1,301**	**11**	**74**	**7**	**1,393**

31 December 2023	Group					Bank				
	Stage 1	Stage 2	Stage 3	POCI Stage 3	Total	Stage 1	Stage 2	Stage 3	POCI Stage 3	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Gross amount	1,644	12	4,535	42	**6,233**	876	12	4,535	42	**5,465**
Loss allowances	(27)	(1)	(4,330)	(35)	**(4,393)**	(19)	(1)	(4,330)	(35)	**(4,385)**
Balance as of 31 December 2023	**1,617**	**11**	**205**	**7**	**1,840**	**857**	**11**	**205**	**7**	**1,080**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

21. Other assets (continued)

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

	Group		Bank	
	31 December 2024 EUR '000	31 December 2023 EUR '000	31 December 2024 EUR '000	31 December 2023 EUR '000
Fees receivable	3,334	3,540	3,334	3,540
Other receivables	2,319	1,925	2,319	1,925
Assets related to insurance contracts	683	733	-	-
Receivables for risk assessment fees	48	35	-	-
	6,384	6,233	5,653	5,465
Loss allowance	(4,268)	(4,393)	(4,260)	(4,385)
Assets exposed to credit risk	**2,116**	**1,840**	**1,393**	**1,080**

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

	Group		Bank	
	Jan 1 - Dec 31, 2024 EUR '000	Jan 1 - Dec 31, 2023 EUR '000	Jan 1 - Dec 31, 2024 EUR '000	Jan 1 - Dec 31, 2023 EUR '000
Balance as of 1 January	4,393	4,691	4,385	4,669
Net increase/(release) of loss allowances on other assets	314	(195)	315	(193)
Total recognised through Income statement (Note 10)	*314*	*(195)*	*315*	*(193)*
Write-offs	(434)	(93)	(434)	(93)
Transfer to off-balance sheet records	(14)	-	(14)	-
Net foreign exchange gain/(loss) on loss allowances	7	(2)	7	(2)
Other adjustments	2	(8)	1	4
Balance at the end of the reporting period	**4,268**	**4,393**	**4,260**	**4,385**

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

22. Deposits from customers

	Group and Bank	
	31 December 2024 EUR '000	31 December 2023 EUR '000
Bank deposits and deposits of foreign financial institutions	-	56,500
Regular accounts of companies	-	3
Account of the Ministry of Finance of the Republic of Croatia	4,252	24,385
Special purpose accounts of the companies	11,917	28,238
Special accounts of foreign financial institutions	-	2
State institutions' deposits	34,764	64,349
Other deposits	44,538	21,307
	95,471	194,784
Accrued interest	41	92
	95,512	**194,876**

Bank deposits in 2023 relate mostly to loro deposits of the Bulgarian Development Bank AD and UniCredit bank Austria AG.

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 4,252 thousand (31 December 2023: EUR 24,385 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, Forestry and Fisheries, 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.

HBOR does not pay interest on the above deposits.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

23. Borrowings

	Group and Bank	
	31 December 2024 EUR '000	31 December 2023 EUR '000
Balance as of 1 January	2,248,771	2,189,811
New borrowings	689,684	653,112
Repayments	(655,843)	(593,361)
Net foreign exchange gain/loss	1,060	(791)
	2,283,672	2,248,771
Accrued interest	7,621	5,737
Deferred fees	(3,025)	(3,332)
	2,288,268	**2,251,176**

	Group and Bank	
	31 December 2024 EUR '000	31 December 2023 EUR '000
Borrowings from foreign financial institutions a)	1,818,672	1,833,548
Borrowings from domestic institutions b)	465,000	415,223
	2,283,672	2,248,771
Accrued interest	7,621	5,737
Deferred recognition of fees	(3,025)	(3,332)
	2,288,268	**2,251,176**

(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 a loans from the Ministry of Finance of the Republic of Croatia.

24. Provisions for guarantees, commitments and other liabilities

	Group		Bank	
	31 December 2024 EUR '000	31 December 2023 EUR '000	31 December 2024 EUR '000	31 December 2023 EUR '000
Provisions for guarantees and commitments	12,913	14,637	12,913	14,637
Provisions for other liabilities	10,455	9,745	10,455	9,743
	23,368	**24,382**	**23,368**	**24,380**

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

	Group		Bank	
	Jan 1 - Dec 31, 2024 EUR '000	Jan 1 - Dec 31, 2023 EUR '000	Jan 1 - Dec 31, 2024 EUR '000	Jan 1 - Dec 31, 2023 EUR '000
Balance as of 1 January	14,637	10,714	14,637	10,714
Net (release)/increase of loss allowances on guarantees	(3,517)	2,375	(3,517)	2,375
Total recognised through Income Statement (Note 10)	*(3,517)*	*2,375*	*(3,517)*	*2,375*
Net increase of loss allowances on commitments	1,883	1,520	1,883	1,520
Total recognised through Income Statement (Note 10)	*1,883*	*1,520*	*1,883*	*1,520*
Net foreign exchange on loss allowances	(90)	28	(90)	28
Balance at the end of the reporting period - Provisions for guarantees and commitments	**12,913**	**14,637**	**12,913**	**14,637**
Balance as of 1 January	9,745	8,227	9,743	8,222
Net increase of loss allowances on other liabilities	120	71	120	71
Total recognised through Income Statement (Note 10)	*120*	*71*	*120*	*71*
Unrealised actuarial gains/(losses)	592	1,450	592	1,450
Other adjustments	(2)	(3)	-	-
Balance at the end of the reporting period - Provisions for other liabilities	**10,455**	**9,745**	**10,455**	**9,743**

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

24. Provisions for guarantees, commitments and other liabilities (continued)

Out of the total provisions for guarantees and commitments, the amount of EUR 217 thousand relates to financial institutions (31 December 2023: EUR 816 thousand), EUR 12,436 thousand relates to domestic companies (31 December 2023: EUR 13,524 thousand), EUR 90 thousand relates to the public sector (31 December 2023: EUR 44 thousand), EUR 76 thousand relates to state-owned companies (31 December 2023: EUR 0 thousand) and EUR 94 thousand relates to other (31 December 2023: EUR 253 thousand).

In 2024, provisions for other liabilities for the Group and Bank totalled EUR 10,455 thousand (31 December 2023: EUR 9,745 thousand for the Group and EUR 9,743 thousand for the Bank). The total amount of provisions for other liabilities was comprised of EUR 492 thousand for court proceedings initiated against the Bank for the Group and for the Bank (31 December 2023: EUR 1,366 thousand), EUR 7,978 thousand for liabilities for the Group and for the Bank based on benefits defined in accordance with IAS 19 Employee Benefits (31 December 2023: EUR 6,857 thousand), and in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets EUR 1,985 thousand for provisions for other liabilities (31 December 2023: EUR 1,522 thousand for the Group and EUR 1,520 thousand for the Bank).

The latest actuarial assessment of present value of liabilities based on defined benefits as at 31 December 2024 was performed by a certified actuary. The model took into account mortality, fluctuation of employees, growth rate in defined benefits and discount rate, and the calculations for every employee considered age, gender, years of service, expected mortality and discount rate, i.e. the long-run sustainable yield rate on bonds of the Republic of Croatia.

The applied discount rate that represents the yield rate on bonds sustainable in the long run is 3.00%, whereas it stood at 2.25% in the previous year.

Unrealised actuarial gains/(losses) arising from the calculation of provisions are stated within the framework of other comprehensive income so that net assets or liability may reflect the entire value of deficit or surplus planned.

25. Other liabilities

	Group		Bank	
	31 December 2024 EUR '000	31 December 2023 EUR '000	31 December 2024 EUR '000	31 December 2023 EUR '000
Liabilities in respect of subsidized interest (a)	26,653	34,851	26,653	34,851
Deferred recognition of interest income (b)	46,624	50,515	46,624	50,515
Accrued salaries	1,603	1,363	1,563	1,327
Liabilities to suppliers	339	184	317	159
Liabilities for prepaid receivables	1,931	870	1,931	870
Liabilities for remaining coverage	1,053	1,049	-	-
Liabilities for incurred losses	1,633	1,291	-	-
Deferred tax liabilities	-	20	-	-
Corporate income tax-current liability	46	10	-	-
Lease liabilities	1,375	2,043	1,281	2,042
Other liabilities	6,941	927	6,880	865
Derivative financial liabilities	15	100	15	100
	88,213	**93,223**	**85,264**	**90,729**

(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 22,568 thousand in respect of the Programme of Preferential Financing through HBOR's Loan Programmes (31 December 2023: EUR 18,429 thousand),
- Financial instrument of the Interest Subsidy Fund for loans to micro, small and medium-sized business entities in the amount of EUR 35 thousand (31 December 2023: EUR 4,950 thousand),
- Financial instrument of the Interest Subsidy Fund for loans to mid-cap entities and large business entities in the amount of EUR 90 thousand (31 December 2023: EUR 5,393 thousand),
- Financial instrument of the Interest Subsidy Fund for loans to public sector entities in the amount of EUR 56 thousand (31 December 2023: EUR 6,079 thousand),
- Working Capital financial instrument – Measure for Entrepreneurs in Wood Processing and Furniture Production Activities in the amount of EUR 3,904 thousand (31 December 2023: EUR 0 thousand).

(b) Deferred recognition of interest income of EUR 46,624 thousand (31 December 2023: EUR 50,515 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 0 thousand (31 December 2023: EUR 13,532 thousand), and in respect of those already in repayment stage amounting to EUR 46,624 thousand (31 December 2023: EUR 36,983 thousand) (Note 4.1.L. Government grants).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

26. Founder's capital

Under the HBOR Act, the prescribed founder's capital should amount to EUR 929,060 thousand, paid from the State Budget and from other sources as specified by separate laws.

The schedule of annual amounts of payment and the time schedule of payments out of the State Budget into the capital are not set in advance but are determined by the Croatian Parliament as part of the process of adoption of the State Budget of the Republic of Croatia.

Within its Accounting policies, the Group has set out its objectives of capital management, category of capital managed by the Bank as well as measuring and assessing the policies for capital management. Capital management is described and presented in Note 34.

Founder's capital of the subsidiary Hrvatsko kreditno osiguranje d.d. amounts to EUR 7,632 thousand and is 100% owned by the Bank, and the founder's capital of the company Poslovni info servis d.o.o. amounts to EUR 40 thousand and is 100% owned by Hrvatsko kreditno osiguranje d.d.. The capital of both companies is subscribed and paid in full.

27. Guarantee fund

Group and Bank	EUR '000
Balance as of 1 January 2023	**1,638**
Balance as of 31 December 2023	**1,638**
Balance as of 31 December 2024	**1,638**

The Guarantee fund of EUR 1,638 thousand as of 31 December 2024 and 2023 respectively, relates to funds of the guarantee fund from Deutsche Investitions- und Entwicklungsgesellschaft (DEG) in respect of a financial contribution (granted funds) for the account of the German Government, which are used for covering contingent losses on guarantees issued for loans granted under the Programme for financing business start-ups in Croatia. The funds of the Guarantee fund are unconditionally contributed and have no maturity. The funds of the Guarantee fund give the Government of the Federal Republic of Germany neither controlling rights nor a right to a share of the operating results of the Group.

28. Guarantees and commitments

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

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

Group and Bank

	31 December 2024	31 December 2023
	EUR '000	EUR '000
Issued guarantees	59,473	52,623
Guarantees issued in foreign currency	4,846	7,716
Undrawn loans	480,198	445,273
EIF – subscribed, not called up capital	10,400	10,400
EIF CROGIP Contracted Liability	24,860	31,460
EIF FRC2 Contracted Liability	43	81
	579,820	547,553
Provisions for guarantees and commitments	(12,913)	(14,637)
	566,907	**532,916**

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:

31 December 2024 — **Group and Bank**

	Stage 1	Stage 2	Stage 3	POCI		Without stage	Total
				Stage 2	Stage 3		
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Gross amount	495,126	28,183	18,896	-	2,312	-	**544,517**
Loss allowances	(2,604)	(7,298)	(1,996)	-	(1,015)	-	**(12,913)**
Balance as of 31 December 2024	**492,522**	**20,885**	**16,900**	**-**	**1,297**	**-**	**531,604**

31 December 2023 — **Group and Bank**

	Stage 1	Stage 2	Stage 3	POCI		Without stage	Total
				Stage 2	Stage 3		
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Gross amount	445,908	21,676	25,014	-	13,014	-	**505,612**
Loss allowances	(4,243)	(5,380)	(4,574)	-	(440)	-	**(14,637)**
Balance as of 31 December 2023	**441,665**	**16,296**	**20,440**	**-**	**12,574**	**-**	**490,975**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

28. 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 3%, 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.

29. Managed funds for and on behalf of third parties

The Group manages funds on behalf of and for the account of the Ministry of Finance, the Ministry of the Economy and Sustainable Development, the Ministry of the Sea, Transport and Infrastructure, the Ministry of Agriculture, Forestry and Fisheries, the Ministry of Regional Development and EU Funds, the Ministry of Foreign and European Affairs, the Ministry of Tourism and Sport, the company Vodovod i kanalizacija d.o.o., Split, the Croatian Agency for SMEs, Innovations and Investments ("HAMAG-BICRO") and commercial banks, that are mainly used for various reconstruction and development programmes. These assets are separated from the Group's assets. The income and expense relating to these transactions are charged to the principal, and the Group does not have any other liabilities. The Group charges a fee for part of the services and part of the services are performed free of charge depending on the contract with the customer and taking into account that the stated amounts are insignificant for the Group.

Agency business funds per individual programmes amount to:

Group and Bank

Program	31 December 2024 EUR '000	31 December 2023 EUR '000
Development and Reconstruction of Rural Housing	982	1,914
Employment of Former Soldiers	40,264	39,269
Collection of receivables under HAMAG-BICRO guarantees	7	11
Insurance of export transactions[1]	130,746	119,264
Programme of Preferential Financing through HBOR's Loan Programmes - Ministry of Finance	22,569	18,429
Programme for Regional Development of the Republic of Croatia - loans	-	60
Renewable Energy Resources Project	233	207
VIK – EKO account A – dedicated water charge	113,322	107,751
VIK – EKO account B – VAT	20,791	20,878
Financing the Establishment of Fishing Infrastructure – Ministry of the Sea, Transport and Infrastructure	6,193	6,193
Micro-Loans with EU Support – commercial banks	113	100
Transactions related to investments in the Economic Co-operation Funds	-	1,493
ESIF – Growth and Expansion Loans	112,032	112,505
ESIF - Energy Efficiency in Public Sector Buildings	26,064	27,130
ESIF - Loans for Public Lighting	45,336	45,805
Investment loans for rural development	1,463	1,466
Working Capital for rural development	24,964	35,058
Investment in the Three Seas Initiative Investment Fund[2]	15,901	17,659
NRRP – Interest Subsidy Fund for SMEs	19,945	8,435
NRRP – Interest Subsidy Fund for MIDCAP and Large entrepreneurs	15,395	10,863
NRRP – Interest Subsidy for Public Sector	18,473	13,049
NRRP – Special SME Segments Loans[3]	67,317	33,403
NRRP – Guarantee Fund	61,368	40,304
NRRP - Equity Investment	4,004	-
Loan Programme for Production and Processing in Agriculture	10,798	4,538
ESIF- Urban Development Fund	3,904	-
ESIF- Sustainable Development Loans	56,037	-
ESIF- Production Modernisation Loans	51,197	-
	23,940	-
	893,358	**665,784**

[1] and [2] and [3] The fair value of net assets value of the Insurance of export transactions, the Three Seas Initiative Investment Fund and NRRP Special SME Segments Loans in 2024 is recognised on the basis of the latest available data and does not represent the final fair value, whereas, in 2023, the amount was recognised in accordance with the audited financial statements.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

30. Related-party transactions

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

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

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

As of 31 December 2024 and 31 December 2023 balances arising from transactions with related parties, including the Bank's key management personnel, include the following:

a) Related-party transactions

Group	Assets	Liabilities	Assets	Liabilities
	31 December 2024	31 December 2024	31 December 2023	31 December 2023
	EUR '000	EUR '000	EUR '000	EUR '000
Owner	278,299	406,562	280,436	506,144
Government funds, executive authorities and agencies	584,979	33,536	672,036	18,982
State-owned companies	138,822	934	181,913	988
Key management personnel	238	393	272	423
Total	**1,002,338**	**441,425**	**1,134,657**	**526,537**

Group	Income	Expense	Income	Expense
	Jan 1 – Dec 31 2024	Jan 1 – Dec 31 2024	Jan 1 – Dec 31 2023	Jan 1 – Dec 31 2023
	EUR '000	EUR '000	EUR '000	EUR '000
Owner	9,019	12,778	7,411	3,249
Government funds, executive authorities and agencies	14,470	639	16,578	121
State-owned companies	13,795	18,477	8,828	30,090
Key management personnel	9	1,443	10	1,505
Total	**37,293**	**33,337**	**32,827**	**34,965**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

30. Related-party transactions (continued)

a) Related-party transactions (continued)

Bank	Assets	Liabilities	Assets	Liabilities
	31 December 2024	31 December 2024	31 December 2023	31 December 2023
	EUR '000	EUR '000	EUR '000	EUR '000
Owner	278,299	406,562	280,436	506,144
Government funds, executive authorities and agencies	579,373	33,530	665,950	18,973
State-owned companies	138,821	931	181,912	987
Subsidiary companies	7,449	-	7,449	-
Key management personnel	238	374	272	403
Total	**1,004,180**	**441,397**	**1,136,019**	**526,507**

Bank	Income	Expense	Income	Expense
	Jan 1 – Dec 31 2024	Jan 1 – Dec 31 2024	Jan 1 – Dec 31 2023	Jan 1 – Dec 31 2023
	EUR '000	EUR '000	EUR '000	EUR '000
Owner	9,019	12,778	7,411	3,249
Government funds, executive authorities and agencies	14,313	617	15,895	97
State-owned companies	13,795	18,459	8,828	30,080
Key management personnel	9	1,178	10	1,253
Total	**37,136**	**33,032**	**32,144**	**34,679**

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

30. Related-party transactions (continued)

b) Collateral received

	Group		Bank	
	31 December 2024	31 December 2023	31 December 2024	31 December 2023
	EUR '000	EUR '000	EUR '000	EUR '000
The Republic of Croatia	1,068,419	1,132,205	1,064,179	1,129,860
State agencies	88,896	106,553	88,896	106,553
Total	**1,157,315**	**1,238,758**	**1,153,075**	**1,236,413**

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

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

c) Salaries of key management personnel

Key members of the Group's and the Bank's management include members of the Management Board, senior executive directors, head of the Management Board Office, executive directors, assistant director, advisors to the Management Board and an authorised agent (proxy).
Salaries include compensation paid for regular work, annual vacation, national holidays, paid leave, sick leave, benefits payable for past service and payments under contractual agreements. In 2024, salaries for the Group amounted to EUR 1,428 thousand (31 December 2023: EUR 1,490 thousand), and for the Bank EUR 1,178 thousand (31 December 2023: EUR 1,253 thousand).

Remuneration for the work of the members of the Supervisory Board in 2024 amounted to EUR 15 thousand for the Group (31 December 2023: EUR 15 thousand) and for the Bank EUR 0 thousand (31 December 2023: EUR 0 thousand) and it relates to the members of supervisory boards at subsidiaries who were appointed by HBOR.

31. Risk management

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

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

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

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

31.1. Overview of the most important risks

Credit risk

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

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

Liquidity risk, currency risk and interest rate risk

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

Liquidity risk

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

In order to manage liquidity risk, the Bank has established a system of limits and early warning signals, monitors and controls limit utilisation, maintains the adequate level of liquidity reserve, continuously monitors current and planned liquidity, ensures 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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.1. Overview of the most important risks (continued)

Liquidity risk (continued)

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

Interest rate risk

The basic principles for managing the Bank's interest rate risk are determined in the internal documents as well as in the decisions and conclusions made by the Management Board and the Asset and Liability Management Committee. For the purpose of measurement and monitoring of interest rate risk, the Bank carries out interest rate gap analysis. Interest rate gap is calculated for certain periods according to the possibilities of interest rate changes and is used for presenting the sensitivity of the Bank to the changes in interest rates under regular and stress conditions. The BPV (basis point value) and the change in economic value of capital as well as the changes in net interest income from operations that are kept in the book of non-traded positions are calculated and the 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.

ESG risks

ESG risks are risks of negative financial impact arising as a result of the existing or future impact of environmental, social or governance factors (ESG factors) on other contracting parties or invested assets. HBOR's approach to managing ESG risks is focused on identifying them, understanding of their severity and probability of occurrence, as well as determining how to manage them. In this process, the assessment of environmental climate risk is a priority, which includes, among others, a review of compliance with environmental and climate requirements. The project/investment compliance is checked from the point of view of: legality, relevant environmental legislation of the EU and the Republic of Croatia, requirements of the green transition principle relating to environmental goals, requirements of the DNSH principle and other requirements (Paris Agreement, OECD guidelines, InvestEU, etc.), depending on the loan programme that is implemented and on the source of finance and subsidies.

31. Risk management (continued)

31.1. Overview of the most important risks (continued)

Operational risk (continued)

The basic principles of operational risk management were identified in the umbrella act, Operational Risk Management Policies, the structure of management and accountability in the system was set up, the approach for the calculation of capital requirements for operational risk was determined, the reporting system was established as well as the manners of establishing, managing and monitoring the exposure to operational risk.
The management system covers the operational risk at business changes, new products and significant changes to existing products as well as the 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 2024, no operational risk events were identified that would significantly affect HBOR's exposure to operational risk. The event from the previous period (earthquake in Zagreb in 2020, which resulted in damage to HBOR's main office building) had an impact on operations during 2024 as preparatory works for the renovation of the building began, and the effects of that event are continuously recorded in the operational risk event database.

In order to adequately manage IT security, HBOR has initiated compliance with the Regulation (EU) – The Digital Operational Resilience Act (DORA) on a voluntary basis, since HBOR is not obliged to implement the Regulation.

Outsourcing risk

HBOR manages the outsourcing risk on the basis of internal documents that are in compliance with the regulations for credit institutions to the extent applicable to HBOR as a special financial institution. The internal documents that determine the management of this risk determine also the procedures for carrying out the outsourced activities, the rules for managing relations with service providers and minimizing of outsourcing risks.

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 an annual basis.

In 2024, the activities of auditing internal documents and improving the outsourcing risk management system started in accordance with good business practice and regulations to the extent applicable to HBOR as a special financial institution.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.2. Strategy and risk management systems

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

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

Risk management committees

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

In the first quarter of 2024, the Sustainable Finance Committee was established and began its work.

- **The Sustainable Finance Committee** – manages the development of sustainable finance and compliance with regulatory requirements in the area of sustainable finance with an objective to facilitate the financing of the transition to a climate neutral and sustainable economy.

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.

31. Risk management (continued)

31.2. Strategy and risk management systems (continued)

Risk measurement and reporting systems

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

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

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

31.3. Credit risk

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

The credit risk management system is the crucial part of the Bank's business policy and an important strategic factor of business conduct. Therefore this area is regulated by the Credit Risk Management Policy and the Credit Risk Management Ordinance that are applied on all phases of the credit process (from development of new bank products to loan applications, monitoring of client's business operations and final loan repayments).

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

In the case of direct lending, the Credit Risk Assessment Methodology is used to determine creditworthiness, and it consists of:

- Credit Rating Assessment Methodology for Companies,
- Methodology for the Assessment of Operations of Clients that Keep their Business Records in Accordance with the Income Tax Act,
- Methodology for Project Finance,
- Credit Scoring Methodology,
- Methodology for Risk Assessment of Branches of Activities and,
- Methodology for the Assessment of Collaterals.

The Credit Rating Assessment Methodology for Companies consists of three models that is based on the size of a client and its existing operations. Methodology for the Assessment of Operations of Clients that Keep their Business Records in Accordance with the Income Tax Act is used for the assessment of credit risk of craftsmen, farmers, sole traders etc., also on the basis of their existing operations.

Notes to the Financial Statements which include significant accounting policies and other explanations
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31. Risk management (continued)

31.3. Credit risk (continued)

The Methodology for Project Finance is used for the assessment of the credit risk of a project based on the data from the client's investment study or the business plan, respectively. It is used in the process of approving placements to clients or groups of connected clients in the case of future gross exposure of HBOR above EUR 400 thousand on the basis of 3 models of assessment related to the investment activity:

- service activities (e.g. hotel construction, rental facilities),
- renewable energy sources,
- other industries that do not belong to the previous two models.

The Credit Scoring Methodology is used in the process of approving the placements to clients in the case of future gross exposure to clients and groups of connected clients to which HBOR will be exposed in the amount of up to EUR 400 thousand.

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 minimize risk and objectively estimate economic sustainability of the project as well as a return on investment, the Bank is constantly improving existing organizational and technical solutions, reports and internal acts and proposes new organization regulations and implementation instructions.

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

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.

31. Risk management (continued)

31.3. Credit risk (continued)

31.3.1. Risk related to loan commitments

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

All guarantees are monitored on the basis of validity periods, whereas letters of credit with deferred payment terms are monitored on the basis of maturities. In the case of performance-related guarantees, the probability of payment under guarantees is monitored by keeping track of the fulfilment of payment terms and conditions under guarantees (under commercial contracts, control of use of funds for dedicated purposes, etc.)

In the case of calling for payment, the Bank shall make a payment on behalf of client. For the Bank, such obligations generate exposures to risks that are similar to credit risks and they are mitigated by the same procedures that are applied to loans.

31.3.2. Impairment assessment

Impairment is formed in accordance with the International Financial Reporting Standard 9, banking regulations applicable to HBOR, as well as internal ordinances and work methodologies.

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

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

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

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

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31. Risk management (continued)

31.3. Credit risk (continued)

31.3.2. Impairment assessment (continued)

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

- Changes in financial rating of client as well as of clients and groups of entrepreneurs connected with the client,
- Criteria whose objective is to identify financial difficulties of client,
- Criteria contained in the client watch list, and
- Criteria for identification of increased credit risk.

A client is considered to duly meet its obligations if it settles all of its obligations fully (principal, interest, commissions, fees and other charges) in the amounts and within the deadlines determined in the respective contracts, where all placements and of-balance sheet liabilities of a client are considered as one, and only exceptionally and occasionally upon the expiry of the maturity date, provided that:

- the delay in settling the debtor's obligations is not more than 90 days and
- is not materially significant.

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

31.3.2.1. Definition of default status and exit from default status

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

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

The materiality threshold is EUR 100 for citizens, and EUR 500 for other clients, while the relative threshold is 1% of the client's due liabilities in relation to the total amount of all balance sheet exposures of the Bank to an individual client, excluding exposures based on equity investments.

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,
- payment under the guarantee by HBOR,
- it is estimated that the default status of the connected client will cause the default status of the debtor.

31. Risk management (continued)

31.3. Credit risk (continued)

31.3.2. Impairment (continued)

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

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

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

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

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

Restructured exposures caused by financial difficulties and repayment problems can be classified as cured after the lapse of one year 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 one-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 after their recovery classified into low credit risk or increased credit risk status.

Notes to the Financial Statements which include significant accounting policies and other explanations
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31. Risk management (continued)

31.3. Credit risk (continued)

31.3.2. Impairment (continued)

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

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

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

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

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

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

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

For exposures to domestic financial institutions, owing to the fact that there is no external rating for all financial institutions in the Group portfolio, the existing internal ratings for domestic financial institutions have been mapped against the external rating, where a financial institution that has an external rating has been used as the mapping starting point, due to which the Group's internal rating has been made equal to the rating of S&P: "BBB+". In this way, the upper limit has been established for domestic financial institutions at the level of the government rating. Distribution of PD value for the other internal ratings is determined on the basis of the method of linear interpolation.

Ratings of external credit rating agencies are used for exposures to foreign financial institutions and, therefore, the appropriate PD value from their matrices is used, and if non-existing, the internal rating is used, i.e. the rules are applied that are identical to those applied to domestic financial institutions.

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

31. Risk management (continued)

31.3. Credit risk (continued)

31.3.2. Impairment (continued)

31.3.2.3. Exposure at default

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

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

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

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

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

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

31.3.2.4. Loss given default

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
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31. Risk management (continued)

31.3. Credit risk (continued)

31.3.2. Impairment assessment (continued)

31.3.2.5. Significant increase in credit risk

In order to establish the credit risk status of clients, changes are monitored continuously, but at least once a year, for all Bank clients. 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, left activated or deactivated. The result of a change in the client's status is the reclassification of its financial instruments to Stage 1 or its staying in Stage 2.

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

31.3.2.6. Grouping financial assets measured on a collective basis

Financial instruments of the client are 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 risk of POCI assets of clients that are not in the default status is assessed on a collective basis.

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,

31. Risk management (continued)

31.3. Credit risk (continued)

31.3.2. Impairment assessment (continued)

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

- direct borrowers – small and medium-sized,
- direct borrowers – micro,
- direct borrowers – citizens,
- others.

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

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

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

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
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31. Risk management (continued)

31.3. Credit risk (continued)

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

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

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

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

31.3.5. Overview of modified and restructured loans

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

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

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

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

Evidence on concession includes the following:

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

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

31. Risk management (continued)

31.3. Credit risk (continued)

31.3.6. Analysis of risk concentration

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

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

As of 31 December 2024, the highest credit exposure of the Group to one debtor equaled EUR 317,654 thousand (31 December 2023: EUR 272,844 thousand) and of the Bank equaled EUR 313,675 thousand (31 December 2023: EUR 269,949 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.

31.3.7. Risk-Sharing Model

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

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

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31. Risk management (continued)

31.3. Credit risk (continued)

31.3.7. Risk-Sharing Model (continued)

HBOR monitors its clients or groups of related parties 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 obtain necessary information from commercial banks.

31.3.8. Collaterals and other credit quality (creditworthiness) improvement

Collateral for the Bank's placements are:

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

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

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

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

31. Risk management (continued)

31.3. Credit risk (continued)

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

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

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

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

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

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

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
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31. Risk management (continued)

31.3. Credit risk (continued)

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

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

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

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 controlling 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,

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).

31. Risk management (continued)

31.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure

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

	Group		Bank	
	Highest exposure 31 December 2024 EUR '000	Highest exposure 31 December 2023 EUR '000	Highest exposure 31 December 2024 EUR '000	Highest exposure 31 December 2023 EUR '000
Assets				
Cash on hand and current accounts with banks	46,061	42,133	45,543	41,543
Deposits with other banks	93,871	71,761	90,410	69,456
Loans to financial institutions	1,225,809	1,248,881	1,225,809	1,248,881
Loans to other customers	2,308,436	2,351,196	2,308,436	2,351,196
Financial assets at fair value through profit or loss	32,476	33,709	32,476	33,709
Financial assets at fair value through other comprehensive income	237,314	227,434	231,149	221,093
Other assets	2,116	1,840	1,393	1,080
Total	**3,946,083**	**3,976,954**	**3,935,216**	**3,966,958**
Guarantees and commitments				
Issued guarantees	54,084	44,545	54,084	44,545
Issued guarantees in foreign currency	3,406	5,357	3,406	5,357
Undrawn loans	474,114	441,073	474,114	441,073
Total	**531,604**	**490,975**	**531,604**	**490,975**
Total credit risk exposure	**4,477,687**	**4,467,929**	**4,466,820**	**4,457,933**

31. Risk management (continued)

31.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Group 31 December 2024	Republic of Croatia	EU countries	Other countries	Total
	EUR '000	EUR '000	EUR '000	EUR '000
Assets				
Cash on hand and current accounts with banks	45,691	183	187	46,061
Deposits with other banks	71,262	22,609	-	93,871
Loans to financial institutions	1,225,809	-	-	1,225,809
Loans to other customers	2,299,953	801	7,682	2,308,436
Financial assets at fair value through profit or loss	32,476	-	-	32,476
Financial assets at fair value through other comprehensive income	237,177	137	-	237,314
Other assets	1,077	1,039	-	2,116
Total	**3,913,445**	**24,769**	**7,869**	**3,946,083**
Guarantees and commitments				
Issued guarantees	54,084	-	-	54,084
Issued guarantees in foreign currency	3,406	-	-	3,406
Undrawn loans	474,110	-	4	474,114
Total	**531,600**	**-**	**4**	**531,604**
Total credit risk exposure	**4,445,045**	**24,769**	**7,873**	**4,477,687**

31. Risk management (continued)

31.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Group 31 December 2023	Republic of Croatia	EU countries	Other countries	Total
	EUR '000	EUR '000	EUR '000	EUR '000
Assets				
Cash on hand and current accounts with banks	41,828	215	90	42,133
Deposits with other banks	38,119	33,642	-	71,761
Loans to financial institutions	1,248,881	-	-	1,248,881
Loans to other customers	2,351,196	-	-	2,351,196
Financial assets at fair value through profit or loss	33,709	-	-	33,709
Financial assets at fair value through other comprehensive income	227,239	195	-	227,434
Other assets	1,153	683	4	1,840
Total	**3,942,125**	**34,735**	**94**	**3,976,954**
Guarantees and commitments				
Issued guarantees	44,545	-	-	44,545
Issued guarantees in foreign currency	5,357	-	-	5,357
Undrawn loans	432,651	821	7,601	441,073
Total	**482,553**	**821**	**7,601**	**490,975**
Total credit risk exposure	**4,424,678**	**35,556**	**7,695**	**4,467,929**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Bank 31 December 2024	Republic of Croatia	EU countries	Other countries	Total
	EUR '000	EUR '000	EUR '000	EUR '000
Assets				
Cash on hand and current accounts with banks	45,173	183	187	45,543
Deposits with other banks	67,801	22,609	-	90,410
Loans to financial institutions	1,225,809	-	-	1,225,809
Loans to other customers	2,299,953	801	7,682	2,308,436
Financial assets at fair value through profit or loss	32,476	-	-	32,476
Financial assets at fair value through other comprehensive income	231,012	137	-	231,149
Other assets	354	1,039	-	1,393
Total	**3,902,578**	**24,769**	**7,869**	**3,935,216**
Guarantees and commitments				
Issued guarantees	54,084	-	-	54,084
Issued guarantees in foreign currency	3,406	-	-	3,406
Undrawn loans	474,110	-	4	474,114
Total	**531,600**	**-**	**4**	**531,604**
Total credit risk exposure	**4,434,178**	**24,769**	**7,873**	**4,466,820**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Bank 31 December 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	41,238	215	90	41,543
Deposits with other banks	35,814	33,642	-	69,456
Loans to financial institutions	1,248,881	-	-	1,248,881
Loans to other customers	2,351,196	-		2,351,196
Financial assets at fair value through profit or loss	33,709	-	-	33,709
Financial assets at fair value through other comprehensive income	220,898	195	-	221,093
Other assets	393	683	4	1,080
Total	**3,932,129**	**34,735**	**94**	**3,966,958**
Guarantees and commitments				
Issued guarantees	44,545	-	-	44,545
Issued guarantees in foreign currency	5,357	-	-	5,357
Undrawn loans	432,651	821	7,601	441,073
Total	**482,553**	**821**	**7,601**	**490,975**
Total credit risk exposure	**4,414,682**	**35,556**	**7,695**	**4,457,933**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Group	Highest exposure 31 December 2024 EUR '000	Highest exposure after the effect of mitigation through collateral received 31 December 2024 EUR '000	Highest exposure 31 December 2023 EUR '000	Highest exposure after the effect of mitigation through collateral received 31 December 2023 EUR '000
Financial intermediation and insurance	1,572,780	-	1,567,846	-
Water and electric supply and other infrastructure	505,448	380,244	336,728	178,496
Tourism	397,965	15,263	421,616	15,995
Transport, warehousing and connections	318,505	51,632	386,616	62,267
Shipbuilding	175,722	9,381	162,243	17,674
Agriculture and fishery	100,099	30,987	100,210	31,167
Food industry	124,339	16,897	141,837	32,135
Construction industry	348,065	7,882	405,426	25,985
Other industry	164,329	36,999	174,079	56,170
Public administration	244,498	244,099	238,315	237,890
Education	7,518	7,107	10,128	9,737
Manufacture of basic metals and fabricated metal products, except machinery and equipment	52,918	10,006	51,337	6,961
Manufacture of chemicals and chemical products	11,465	964	14,881	1,239
Manufacture of other non-metallic mineral products	27,337	6,027	36,124	8,176
Pharmaceutical industry	62,341	2,326	67,491	7,555
Manufacture of motor vehicles, trailers and semi - trailers	11,257	369	13,173	454
Manufacture of electrical equipment	39,858	27,780	18,582	6,264
Manufacture of machinery and equipment	37,016	2,816	30,898	3,016
Other	276,227	84,988	290,399	80,471
Total credit risk exposure	**4,477,687**	**935,767**	**4,467,929**	**781,652**

31. Risk management (continued)

31.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Bank	Highest exposure 31 December 2024 EUR '000	Highest exposure after the effect of mitigation through collateral received 31 December 2024 EUR '000	Highest exposure 31 December 2023 EUR '000	Highest exposure after the effect of mitigation through collateral received 31 December 2023 EUR '000
Financial intermediation and insurance	1,568,801	-	1,564,952	-
Water and electric supply and other infrastructure	505,448	380,244	336,728	178,496
Tourism	397,965	15,263	421,616	15,995
Transport, warehousing and connections	318,498	51,624	386,609	62,260
Shipbuilding	175,722	9,381	162,243	17,674
Agriculture and fishery	100,096	30,984	100,207	31,165
Food industry	124,317	16,875	141,809	32,107
Construction industry	347,883	7,699	405,272	25,832
Other industry	164,266	36,936	174,015	56,106
Public administration	238,333	237,934	231,974	231,548
Education	7,518	7,107	10,128	9,737
Manufacture of basic metals and fabricated metal products, except machinery and equipment	52,907	9,995	51,331	6,955
Manufacture of chemicals and chemical products	11,465	964	14,881	1,239
Manufacture of other non-metallic mineral products	27,337	6,027	36,124	8,176
Pharmaceutical industry	62,241	2,226	67,371	7,435
Manufacture of motor vehicles, trailers and semi - trailers	11,257	369	13,173	454
Manufacture of electrical equipment	39,858	27,780	18,582	6,264
Manufacture of machinery and equipment	37,016	2,816	30,898	3,016
Other	275,892	84,654	290,020	80,092
Total credit risk exposure	**4,466,820**	**928,878**	**4,457,933**	**774,551**

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

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

The fair value of collateral for the Group in 2024 amounted to EUR 3,541,920 thousand (31 December 2023: EUR 3,686,277 thousand) and for the Bank EUR 3,537,942 thousand (31 December 2023: EUR 3,683,382 thousand).

Net highest exposure as at 31 December 2024 for the Group amounted to EUR 935,767 thousand (31 December 2023: EUR 781,652 thousand) and for the Bank EUR 928,878 thousand (31 December 2023: EUR 774,551 thousand).

In the total net highest exposure after the effect of mitigation through collateral received as of 31 December 2024, the credit risk of EUR 521,744 thousand for the Group (31 December 2023: EUR 418,339 thousand) and EUR 516,151 thousand for the Bank (31 December 2023: EUR 412,301 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 47,172 thousand (31 December 2023: EUR 58,915 thousand), from local (regional) authorities of EUR 223,698 thousand (31 December 2023: EUR 115,038 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of EUR 14,340 thousand (31 December 2023: EUR 17,529 thousand), government funds of EUR 4 thousand (31 December 2023: EUR 4 thousand), government bonds and Treasury bills of the Ministry of Finance of EUR 236,530 thousand for the Group and EUR 230,937 thousand for the Bank (31 December 2023: EUR 226,853 thousand for the Group and EUR 220,815 thousand for the Bank).

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

Financial intermediation includes mainly commercial bank.

31. Risk management (continued)

31.3. Credit risk (continued)

Credit risk quality according to type of financial assets

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

Group 31 December 2024	Net exposure of portfolio - risk Stage 1	Net exposure of portfolio - risk Stage 2	Net exposure of portfolio - risk Stage 3	Net exposure of portfolio of risk POCI risk Stage 2	Net exposure of portfolio of risk POCI risk Stage 3	Not subject to IFRS 9	Net exposure of total portfolio	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3	Net exposure of portfolio after the effect of mitigation through collateral received POCI risk Stage 2	Net exposure of portfolio after the effect of mitigation through collateral received POCI risk Stage 3	Not subject to IFRS 9 after the effect of mitigation through collateral received	Net exposure of total portfolio after the effect of mitigation through collateral received
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	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	46,061	-	-	-	-	-	46,061	-	-	-	-	-	-	-
Deposits with other banks	93,871	-	-	-	-	-	93,871	-	-	-	-	-	-	-
Loans to financial institutions	1,199,519	26,042	248	-	-	-	1,225,809	-	-	-	-	-	-	-
Loans to other customers	1,740,324	228,989	157,336	181,787	-	-	2,308,436	415,588	40,409	10,231	25	2,627	-	468,880
Financial assets at fair value through profit or loss	-	-	-	-	-	32,476	32,476	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	237,177	-	137	-	-	-	237,314	237,177	-	137	-	-	-	237,314
Other assets	2,024	11	74	7	-	-	2,116	880	11	74	-	7	-	972
Total	**3,318,976**	**255,042**	**157,795**	**181,794**	**-**	**32,476**	**3,946,083**	**653,645**	**40,420**	**10,442**	**25**	**2,634**	**-**	**707,166**
Guarantees and commitments														
Issued guarantees	32,206	5,561	16,317	-	-	-	54,084	32,111	5,561	2,480	-	-	-	40,152
Issued guarantees in foreign currency	55	3,351	-	-	-	-	3,406	54	3,351	-	-	-	-	3,405
Undrawn loans	460,261	11,973	583	1,297	-	-	474,114	180,667	4,377	-	-	-	-	185,044
Total	**492,522**	**20,885**	**16,900**	**1,297**	**-**	**-**	**531,604**	**212,832**	**13,289**	**2,480**	**-**	**-**	**-**	**228,601**
Total credit risk exposure	**3,811,498**	**275,927**	**174,695**	**183,091**	**-**	**32,476**	**4,477,687**	**866,477**	**53,709**	**12,922**	**25**	**2,634**	**-**	**935,767**

31. Risk management (continued)

31.3. Credit risk (continued)

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

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

Group 31 December 2023	Net exposure of portfolio - risk Stage 1	Net exposure of portfolio - risk Stage 2	Net exposure of portfolio - risk Stage 3	Net exposure of portfolio of risk POCI risk Stage 2	Net exposure of portfolio of risk POCI risk Stage 3	Not subject to IFRS 9	Net exposure of total portfolio	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3	Net exposure of portfolio after the effect of mitigation through collateral received POCI risk Stage 2	Net exposure of portfolio after the effect of mitigation through collateral received POCI risk Stage 3	Not subject to IFRS 9 after the effect of mitigation through collateral received	Net exposure of total portfolio after the effect of mitigation through collateral received
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	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	42,133	-	-	-	-	-	42,133	-	-	-	-	-	-	-
Deposits with other banks	71,761	-	-	-	-	-	71,761	-	-	-	-	-	-	-
Loans to financial institutions	1,233,889	14,713	279	-	-	-	1,248,881	-	-	-	-	-	-	-
Loans to other customers	1,773,734	260,005	132,676	5,463	179,318	-	2,351,196	330,589	29,668	8,431	66	9,546	-	378,300
Financial assets at fair value through profit or loss	-	-	-	-	-	33,709	33,709	-	-	-	-	-	158	158
Financial assets at fair value through other comprehensive income	227,239	-	195	-	-	-	227,434	227,239	-	195	-	-	-	227,434
Other assets	1,617	11	205	-	7	-	1,840	869	11	79	-	8	-	967
Total	**3,350,373**	**274,729**	**133,355**	**5,463**	**179,325**	**33,709**	**3,976,954**	**558,697**	**29,679**	**8,705**	**66**	**9,554**	**158**	**606,859**
Guarantees and commitments														
Issued guarantees	17,929	6,176	20,440	-	-	-	44,545	17,537	1,344	14,348	-	-	-	33,229
Issued guarantees in foreign currency	53	5,304	-	-	-	-	5,357	15	2,919	-	-	-	-	2,934
Undrawn loans	423,683	4,816	-	-	12,574	-	441,073	135,627	2,938	-	-	65	-	138,630
Total	**441,665**	**16,296**	**20,440**	**-**	**12,574**	**-**	**490,975**	**153,179**	**7,201**	**14,348**	**-**	**65**	**-**	**174,793**
Total credit risk exposure	**3,792,038**	**291,025**	**153,795**	**5,463**	**191,899**	**33,709**	**4,467,929**	**711,876**	**36,880**	**23,053**	**66**	**9,619**	**158**	**781,652**

31. Risk management (continued)

31.3. Credit risk (continued)

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

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

Bank 31 December 2024	Net exposure of portfolio - risk Stage 1	Net exposure of portfolio - risk Stage 2	Net exposure of portfolio - risk Stage 3	Net exposure of portfolio of risk POCI		Not subject to IFRS 9	Net exposure of total portfolio	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3	Net exposure of portfolio after the effect of mitigation through collateral received POCI		Not subject to IFRS 9 after the effect of mitigation through collateral received	Net exposure of total portfolio after the effect of mitigation through collateral received
				risk Stage 2	risk Stage 3						risk Stage 2	risk Stage 3		
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	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	45,543	-	-	-	-	-	45,543	-	-	-	-	-	-	-
Deposits with other banks	90,410	-	-	-	-	-	90,410	-	-	-	-	-	-	-
Loans to financial institutions	1,199,519	26,042	248	-	-	-	1,225,809	-	-	-	-	-	-	-
Loans to other customers	1,740,324	228,989	157,336	39,131	142,656	-	2,308,436	415,588	40,409	10,231	25	2,627	-	468,880
Financial assets at fair value through profit or loss	-	-	-	-	-	32,476	32,476	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	231,012	-	137	-	-	-	231,149	231,012	-	137	-	-	-	231,149
Other assets	1,301	11	74	-	7	-	1,393	156	11	74	-	7	-	248
Total	**3,308,109**	**255,042**	**157,795**	**39,131**	**142,663**	**32,476**	**3,935,216**	**646,756**	**40,420**	**10,442**	**25**	**2,634**	**-**	**700,277**
Guarantees and commitments														
Issued guarantees	32,206	5,561	16,317	-	-	-	54,084	32,111	5,561	2,480	-	-	-	40,152
Issued guarantees in foreign currency	55	3,351	-	-	-	-	3,406	54	3,351	-	-	-	-	3,405
Undrawn loans	460,261	11,973	583	-	1,297	-	474,114	180,667	4,377	-	-	-	-	185,044
Total	**492,522**	**20,885**	**16,900**	**-**	**1,297**	**-**	**531,604**	**212,832**	**13,289**	**2,480**	**-**	**-**	**-**	**228,601**
Total credit risk exposure	**3,800,631**	**275,927**	**174,695**	**39,131**	**143,960**	**32,476**	**4,466,820**	**859,588**	**53,709**	**12,922**	**25**	**2,634**	**-**	**928,878**

31. Risk management (continued)

31.3. Credit risk (continued)

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

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

Bank 31 December 2023	Net exposure of portfolio - risk Stage 1	Net exposure of portfolio - risk Stage 2	Net exposure of portfolio - risk Stage 3	Net exposure of portfolio of risk POCI		Not subject to IFRS 9	Net exposure of total portfolio	Net exposure of portfolio after the effect of mitigation through collateral received Stage 1	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3	Net exposure of portfolio after the effect of mitigation through collateral received POCI		Not subject to IFRS 9 after the effect of mitigation through collateral received	Net exposure of total portfolio after the effect of mitigation through collateral received
				risk Stage 2	risk Stage 3						risk Stage 2	risk Stage 3		
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	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	41,543	-	-	-	-	-	41,543	-	-	-	-	-	-	-
Deposits with other banks	69,456	-	-	-	-	-	69,456	-	-	-	-	-	-	-
Loans to financial institutions	1,233,889	14,713	279	-	-	-	1,248,881	-	-	-	-	-	-	-
Loans to other customers	1,773,734	260,005	132,676	5,463	179,318	-	2,351,196	330,589	29,668	8,431	66	9,546	-	378,300
Financial assets at fair value through profit or loss	-	-	-	-	-	33,709	33,709	-	-	-	-	-	158	158
Financial assets at fair value through other comprehensive income	220,898	-	195	-	-	-	221,093	220,898	-	195	-	-	-	221,093
Other assets	857	11	205	-	7	-	1,080	110	10	79	-	8	-	207
Total	**3,340,377**	**274,729**	**133,355**	**5,463**	**179,325**	**33,709**	**3,966,958**	**551,597**	**29,678**	**8,705**	**66**	**9,554**	**158**	**599,758**
Guarantees and commitments														
Issued guarantees	17,929	6,176	20,440	-	-	-	44,545	17,537	1,344	14,348	-	-	-	33,229
Issued guarantees in foreign currency	53	5,304	-	-	-	-	5,357	15	2,919	-	-	-	-	2,934
Undrawn loans	423,683	4,816	-	-	12,574	-	441,073	135,627	2,938	-	-	65	-	138,630
Total	**441,665**	**16,296**	**20,440**	**-**	**12,574**	**-**	**490,975**	**153,179**	**7,201**	**14,348**	**-**	**65**	**-**	**174,793**
Total credit risk exposure	**3,782,042**	**291,025**	**153,795**	**5,463**	**191,899**	**33,709**	**4,457,933**	**704,776**	**36,879**	**23,053**	**66**	**9,619**	**158**	**774,551**

31. Risk management (continued)

31.3. Credit risk (continued)

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

As at 31 December 2024 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 285,197 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of EUR 47,159 thousand, local and regional authorities of EUR 223,698 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of EUR 14,340 thousand.

As at 31 December 2024 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 236,530 thousand for the Group and EUR 230,937 thousand for the Bank.

As at 31 December 2024 other assets of EUR 17 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

As at 31 December 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 191,406 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of EUR 58,839 thousand, local and regional authorities of EUR 115,038 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of EUR 17,529 thousand.

As at 31 December 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 226,853 thousand for the Group and EUR 220,815 thousand for the Bank.

As at 31 December 2023 other assets of HRK EUR 80 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.3. Credit risk (continued)

i. Allowances

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

Cash on hand and current accounts with banks

Group 31 December 2024	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2024	159	-	-	-	**159**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Net (release) of loss allowance	(15)	-	-	-	**(15)**
Balance at 31 December 2024	**144**	**-**	**-**	**-**	**144**

Group 31 December 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	(646)	-	-	-	**(646)**
Balance at 31 December 2023	**159**	**-**	**-**	**-**	**159**

31. Risk management (continued)

31.3. Credit risk (continued)

i. Allowances (continued)

Cash on hand and current accounts with banks (continued)

Bank

31 December 2024	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2024	158	-	-	-	**158**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Net (release) of loss allowance	(15)	-	-	-	**(15)**
Balance at 31 December 2024	**143**	**-**	**-**	-	**143**

Bank

31 December 2023	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total 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	(646)	-	-	-	**(646)**
Balance at 31 December 2023	**158**	**-**	**-**	-	**158**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.3. Credit risk (continued)

i. Allowances (continued)

Deposits with other banks

Group

31 December 2024	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2024	221	-	-	-	**221**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Net increase of loss allowance	16	-	-	-	**16**
Balance at 31 December 2024	**237**	**-**	**-**	**-**	**237**

Group

31 December 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	216	-	-	-	**216**
Balance at 31 December 2023	**221**	**-**	**-**	**-**	**221**

31. Risk management (continued)

31.3. Credit risk (continued)

ii. Allowances (continued)

Deposits with other banks

Bank 31 December 2024	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2024	218	-	-	-	**218**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Net increase of loss allowance	14	-	-	-	**14**
Balance at 31 December 2024	**232**	**-**	**-**	**-**	**232**

Bank 31 December 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	218	-	-	-	**218**
Balance at 31 December 2023	**218**	**-**	**-**	**-**	**218**

31. Risk management (continued)

31.3. Credit risk (continued)

i. Allowances (continued)

Loans to financial institutions

Group and Bank 31 December 2024	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2024	4,163	1,707	857	-	**6,727**
Transfer to Stage 1	382	(382)	-	-	**-**
Transfer to Stage 2	(186)	186	-	-	**-**
Transfer to Stage 3					
Net increase/(release) of loss allowance	164	784	(37)	-	**911**
Balance at 31 December 2024	**4,523**	**2,295**	**820**	**-**	**7,638**

Group and Bank 31 December 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	558	(558)	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Net increase/(release) of loss allowance	61	(1,370)	(37)		**(1,346)**
Balance at 31 December 2023	**4,163**	**1,707**	**857**	**-**	**6,727**

31, Risk management (continued)

31.3. Credit risk (continued)

i. Allowances (continued)

Loans to other customers

Group and Bank 31 December 2024	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2024	42,543	128,588	267,359	32,267	**470,757**
Transfer to Stage 1	36,600	(35,952)	(648)	-	**-**
Transfer to Stage 2	(6,025)	10,149	(4,124)	-	**-**
Transfer to Stage 3	-	(31,330)	22,358	8,972	**-**
Net (release)/increase of loss allowance	(28,419)	31,816	(4,880)	(1,100)	**(2,583)**
Write-offs	(288)	-	(5,931)	-	**(6,219)**
Unwinding – changes due to the lapse of time	(17)	(441)	2,434	(1,661)	**315**
Other	-	-	-	8,735	**8,735**
Net foreign exchange gain/loss on loss allowances	4	-	693	(160)	**537**
Balance at 31 December 2024	**44,398**	**102,830**	**277,261**	**47,053**	**471,542**

Group and Bank 31 December 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**
Correction of opening balance	-	-	472	17	**489**
Transfer to Stage 1	47,177	(43,608)	(3,569)	-	**-**
Transfer to Stage 2	(8,890)	9,767	(877)	-	**-**
Transfer to Stage 3	(4)	(4,446)	(3,576)	8,026	**-**
Net (release)/increase of loss allowance	(41,292)	62,943	226	(16,517)	**5,360**
Write-offs	(1,652)	-	(3,969)	(82)	**(5,703)**
Unwinding – changes due to the lapse of time	(76)	(135)	1,428	2,779	**3,996**
Other	-	-	-	8,407	**8,407**
Net foreign exchange gain/loss on loss allowances	-	-	(414)	61	**(353)**
Balance at 31 December 2023	**42,543**	**128,588**	**267,359**	**32,267**	**470,757**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.3. Credit risk (continued)

i. Allowances (continued)

Financial assets at fair value through other comprehensive income

Group 31 December 2024	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2024	223	-	231	-	**454**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Net increase/(release) of loss allowance	7	-	(36)	-	**(29)**
Balance at 31 December 2024	**230**	**-**	**195**	**-**	**425**

Group 31 December 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	44	(44)	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Net (release) of loss allowance	(160)	(4)	-	-	**(164)**
Balance at 31 December 2023	**223**	**-**	**231**	**-**	**454**

31. Risk management (continued)

31.3. Credit risk (continued)

i. Allowances (continued)

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

Bank 31 December 2024	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2024	211	-	231	-	**442**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Net increase/(release) of loss allowance	8	-	(36)	-	**(28)**
Balance at 31 December 2024	**219**	**-**	**195**	**-**	**414**

Bank 31 December 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	44	(44)	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Net (release) of loss allowance	(160)	(4)	-	-	**(164)**
Balance at 31 December 2023	**211**	**-**	**231**	**-**	**442**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.3. Credit risk (continued)

i. Allowances (continued)

Other assets

Group 31 December 2024	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2024	27	1	4,330	35	**4,393**
Transfer to Stage 1	19	-	(19)	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Net increase/(release) of loss allowance	(16)	-	331	(1)	**314**
Write-offs	(20)	-	(428)	-	**(448)**
Net foreign exchange gain/loss on loss allowances	-	-	7	-	**7**
Other adjustments	1	-	-	1	**2**
Balance at 31 December 2024	**11**	**1**	**4,221**	**35**	**4,268**

Group 31 December 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 increase/(release) of loss allowance	14	1	(206)	(4)	**(195)**
Write-offs		-	(93)	-	**(93)**
Net foreign exchange gain/loss on loss allowances	-	-	(2)	-	**(2)**
Other adjustments	(12)	-	-	4	**(8)**
Balance at 31 December 2023	**27**	**1**	**4,330**	**35**	**4,393**

31. Risk management (continued)

31.3. Credit risk (continued)

i. Allowances (continued)

Other assets (continued)

Bank 31 December 2024	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2024	19	1	4,330	35	**4,385**
Transfer to Stage 1	19	-	(19)	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Net increase/(release) of loss allowance	(15)	-	331	(1)	**315**
Write-offs	(20)	-	(428)	-	**(448)**
Net foreign exchange gain/loss on loss allowances	-	-	7	-	**7**
Other adjustments	-	-	-	1	**1**
Balance at 31 December 2024	**3**	**1**	**4,221**	**35**	**4,260**

Bank 31 December 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 increase/(release) of loss allowance	16	1	(206)	(4)	**(193)**
Write-offs	-	-	(93)	-	**(93)**
Net foreign exchange gain/loss on loss allowances	-	-	(2)	-	**(2)**
Other adjustments	-	-	-	4	**4**
Balance at 31 December 2023	**19**	**1**	**4,330**	**35**	**4,385**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.3. Credit risk (continued)

i. Allowances (continued)

Guarantees and commitments

Group and Bank 31 December 2024	Stage 1 EUR '000	Stage 2 EUR '000	Stage 3 EUR '000	POCI EUR '000	Total EUR '000
Balance at 1 January 2024	4,243	5,380	4,574	440	**14,637**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	(207)	1,407	(1,200)	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Net increase/(release) of loss allowance	(1,433)	602	(1,378)	575	**(1,634)**
Net foreign exchange gain/loss on loss allowances	1	(91)	-	-	**(90)**
Balance at 31 December 2024	**2,604**	**7,298**	**1,996**	**1,015**	**12,913**

Group and Bank 31 December 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	274	(274)	-	-	**-**
Transfer to Stage 2	(67)	2,277	(2,210)	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Net increase/(release) of loss allowance	2,649	1,679	(309)	(124)	**3,895**
Net foreign exchange gain/loss on loss allowances	-	28	-	-	**28**
Balance at 31 December 2023	**4,243**	**5,380**	**4,574**	**440**	**14,637**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.4. Liquidity risk

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 31 December 2024 and 31 December 2023 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

Group 31 December 2024	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	46,061	-	-	-	-	46,061
Deposits with other banks	92,412	-	-	-	1,459	93,871
Loans to financial institutions*	70,457	66,111	155,368	353,499	580,374	1,225,809
Loans to other customers	210,666	122,184	261,901	611,803	1,101,882	2,308,436
Financial assets at fair value through profit or loss	9,241	129	-	32,233	25,444	67,047
Financial assets at fair value through other comprehensive income	235,958	3,264	1,317	1,080	3,768	245,387
Property, plant and equipment and intangible assets	-	-	-	-	5,095	5,095
Foreclosed assets	-	148	317	467	1,208	2,140
Other assets	2,225	183	1,639	1,637	117	5,801
Total assets	**667,020**	**192,019**	**420,542**	**1,000,719**	**1,719,347**	**3,999,647**
Liabilities						
Deposits from customers	54,375	41	29,752	299	11,045	95,512
Borrowings	31,460	55,735**	277,619	695,465	1,227,989	2,288,268
Provisions for guarantees, commitments and other liabilities	10,471	710	2,400	5,627	4,160	23,368
Other liabilities	38,208	2,783	11,512	20,531	15,179	88,213
Total liabilities	**134,514**	**59,269**	**321,283**	**721,922**	**1,258,373**	**2,495,361**
Liquidity gap	**532,506**	**132,750**	**99,259**	**278,797**	**460,974**	**1,504,286**
Guarantees and commitments						
Issued guarantees	59,473	-	-	-	-	59,473
Issued guarantees in foreign currency	4,846	-	-	-	-	4,846
Undrawn loans	480,198	-	-	-	-	480,198
EIF – subscribed, not called up capital	10,400	-	-	-	-	10,400
EIF CROGIP Contracted Liability	145	2,005	6,450	11,724	4,536	24,860
EIF FRC2 Contracted Liability	5	-	3	16	19	43
Total guarantees and commitments	**555,067**	**2,005**	**6,453**	**11,740**	**4,555**	**579,820**

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

**Receivables of EUR 92,000 thousand relate to reverse REPO agreements. The maturity of part of receivables was prolonged after the Statement of Financial Position date, and an amount of EUR 30,000 thousand was placed in the 1 to 3 months maturity category.*
***Accrued interest on loans not yet due is allocated to the category from 1 to 3 months.*

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.4. Liquidity risk (continued)

Group 31 December 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	42,133	-	-	-	-	42,133
Deposits with other banks	68,254	2,203	-	-	1,304	71,761
Loans to financial institutions*	90,275	158,524	130,273	306,450	563,359	1,248,881
Loans to other customers	271,161	52,397	286,532	586,168	1,154,938	2,351,196
Financial assets at fair value through profit or loss	42	11	-	33,698	19,171	52,922
Financial assets at fair value through other comprehensive income	232,032	3,144	23	-	-	235,199
Property, plant and equipment and intangible assets	-	-	-	-	4,868	4,868
Foreclosed assets	2	148	149	820	1,172	2,291
Other assets	6,482	118	2,662	2,705	318	12,285
Total assets	**710,381**	**216,545**	**419,639**	**929,841**	**1,745,130**	**4,021,536**
Liabilities						
Deposits from customers	148,059	12,586	18,604	46	15,581	194,876
Borrowings	59,784	167,701**	262,670	640,802	1,120,219	2,251,176
Provisions for guarantees, commitments and other liabilities	10,561	851	3,205	6,343	3,422	24,382
Other liabilities	39,304	3,261	14,301	23,605	12,752	93,223
Total liabilities	**257,708**	**184,399**	**298,780**	**670,796**	**1,151,974**	**2,563,657**
Liquidity gap	**452,673**	**32,146**	**120,859**	**259,045**	**593,156**	**1,457,879**
Guarantees and commitments						
Issued guarantees	52,623	-	-	-	-	52,623
Issued guarantees in foreign currency	7,716	-	-	-	-	7,716
Undrawn loans	445,273	-	-	-	-	445,273
EIF – subscribed, not called up capital	10,400	-	-	-	-	10,400
EIF CROGIP Contracted Liability	129	1,467	7,404	15,800	6,660	31,460
EIF FRC2 Contracted Liability	14	4	13	40	10	81
Total guarantees and commitments	**516,155**	**1,471**	**7,417**	**15,840**	**6,670**	**547,553**

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

**Receivables of EUR 193,000 thousand relate to reverse REPO agreements. The maturity of part of receivables was prolonged after the Statement of Financial Position date, and an amount of EUR 128,000 thousand was placed in the 1 to 3 months maturity category.*
***Accrued interest on loans not yet due is allocated to the category from 1 to 3 months.*

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.4. Liquidity risk (continued)

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 31 December 2024 and 31 December 2023 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

Bank 31 December 2024	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Assets						
Cash on hand and current accounts with banks	45,543	-	-	-	-	45,543
Deposits with other banks	88,951	-	-	-	1,459	90,410
Loans to financial institutions*	70,457	66,111	155,368	353,499	580,374	1,225,809
Loans to other customers	210,666	122,184	261,901	611,803	1,101,882	2,308,436
Financial assets at fair value through profit or loss	9,241	129	-	32,233	25,444	67,047
Financial assets at fair value through other comprehensive income	235,958	3,264	-	-	-	239,222
Investments in subsidiaries	-	-	-	-	7,449	7,449
Property, plant and equipment and intangible assets	-	-	-	-	4,882	4,882
Foreclosed assets	-	148	317	467	1,208	2,140
Other assets	1,483	183	1,639	1,637	25	4,967
Total assets	**662,299**	**192,019**	**419,225**	**999,639**	**1,722,723**	**3,995,905**
Liabilities						
Deposits from customers	54,375	41	29,752	299	11,045	95,512
Borrowings	31,460	55,735**	277,619	695,465	1,227,989	2,288,268
Provisions for guarantees, commitments and other liabilities	10,471	710	2,400	5,627	4,160	23,368
Other liabilities	38,208	2,589	8,757	20,531	15,179	85,264
Total liabilities	**134,514**	**59,075**	**318,528**	**721,922**	**1,258,373**	**2,492,412**
Liquidity gap	**527,785**	**132,944**	**100,697**	**277,717**	**464,350**	**1,503,493**
Guarantees and commitments						
Issued guarantees	59,473	-	-	-	-	59,473
Issued guarantees in foreign currency	4,846	-	-	-	-	4,846
Undrawn loans	480,198	-	-	-	-	480,198
EIF – subscribed, not called up capital	10,400	-	-	-	-	10,400
EIF CROGIP Contracted Liability	145	2,005	6,450	11,724	4,536	24,860
EIF FRC2 Contracted Liability	5	-	3	16	19	43
Total guarantees and commitments	**555,067**	**2,005**	**6,453**	**11,740**	**4,555**	**579,820**

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

**Receivables of EUR 92,000 thousand relate to reverse REPO agreements. The maturity of part of receivables was prolonged after the Statement of Financial Position date, and an amount of EUR 30,000 thousand was placed in the 1 to 3 months maturity category.*
*** Accrued interest on loans not yet due is allocated to the category from 1 to 3 months.*

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.4. Liquidity risk (continued)

Bank 31 December 2023	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Assets						
Cash on hand and current accounts with banks	41,543	-	-	-	-	41,543
Deposits with other banks	68,152	-	-	-	1,304	69,456
Loans to financial institutions*	90,275	158,524	130,273	306,450	563,359	1,248,881
Loans to other customers	271,161	52,397	286,532	586,168	1,154,938	2,351,196
Financial assets at fair value through profit or loss	42	11	-	33,698	19,171	52,922
Financial assets at fair value through other comprehensive income	225,735	3,123	-	-	-	228,858
Investments in subsidiaries	-	-	-	-	7,449	7,449
Property, plant and equipment and intangible assets	-	-	-	-	4,723	4,723
Foreclosed assets	2	148	149	820	1,172	2,291
Other assets	5,703	117	2,662	2,705	178	11,365
Total assets	**702,613**	**214,320**	**419,616**	**929,841**	**1,752,294**	**4,018,684**
Liabilities						
Deposits from customers	148,059	12,586	18,604	46	15,581	194,876
Borrowings	59,784	167,701**	262,670	640,802	1,120,219	2,251,176
Provisions for guarantees, commitments and other liabilities	10,561	851	3,203	6,343	3,422	24,380
Other liabilities	39,304	3,167	11,921	23,605	12,732	90,729
Total liabilities	**257,708**	**184,305**	**296,398**	**670,796**	**1,151,954**	**2,561,161**
Liquidity gap	**444,905**	**30,015**	**123,218**	**259,045**	**600,340**	**1,457,523**
Guarantees and commitments						
Issued guarantees	52,623	-	-	-	-	52,623
Issued guarantees in foreign currency	7,716	-	-	-	-	7,716
Undrawn loans	445,273	-	-	-	-	445,273
EIF – subscribed, not called up capital	10,400	-	-	-	-	10,400
EIF CROGIP Contracted Liability	129	1,467	7,404	15,800	6,660	31,460
EIF FRC2 Contracted Liability	14	4	13	40	10	81
Total guarantees and commitments	**516,155**	**1,471**	**7,417**	**15,840**	**6,670**	**547,553**

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

**Receivables of EUR 193,000 thousand relate to reverse REPO agreements. The maturity of part of receivables was prolonged after the Statement of Financial Position date, and an amount of EUR 128,000 thousand was placed in the 1 to 3 months maturity category.*
*** Accrued interest on loans not yet due is allocated to the category from 1 to 3 months.*

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.4. Liquidity risk (continued)

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

Group 31 December 2024	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	54,375	41	29,752	299	11,045	95,512
Borrowings	37,038	53,712	318,952	793,561	1,392,921	2,596,184
Provisions for guarantees, commitments and other liabilities	10,471	710	2,400	5,627	4,160	23,368
Other liabilities	38,208	2,783	11,512	20,531	15,179	88,213
Total	**140,092**	**57,246**	**362,616**	**820,018**	**1,423,305**	**2,803,277**
Guarantees and commitments						
Issued guarantees	59,473	-	-	-	-	59,473
Issued guarantees in foreign currency	4,846	-	-	-	-	4,846
Undrawn loans	480,198	-	-	-	-	480,198
EIF – subscribed, not called up capital	10,400	-	-	-	-	10,400
EIF CROGIP Contracted Liability	145	2,005	6,450	11,724	4,536	24,860
EIF FRC2 Contracted Liability	5	-	3	16	19	43
Total guarantees and commitments	**555,067**	**2,005**	**6,453**	**11,740**	**4,555**	**579,820**

Group 31 December 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	148,059	12,586	18,604	46	15,581	194,876
Borrowings	61,798	166,698	296,933	723,743	1,268,546	2,517,718
Provisions for guarantees, commitments and other liabilities	10,561	851	3,205	6,343	3,422	24,382
Other liabilities	39,304	3,261	14,301	23,605	12,752	93,223
Total	**259,722**	**183,396**	**333,043**	**753,737**	**1,300,301**	**2,830,199**
Guarantees and commitments						
Issued guarantees	52,623	-	-	-	-	52,623
Issued guarantees in foreign currency	7,716	-	-	-	-	7,716
Undrawn loans	445,273	-	-	-	-	445,273
EIF – subscribed, not called up capital	10,400	-	-	-	-	10,400
EIF CROGIP Contracted Liability	129	1,467	7,404	15,800	6,660	31,460
EIF FRC2 Contracted Liability	14	4	13	40	10	81
Total guarantees and commitments	**516,155**	**1,471**	**7,417**	**15,840**	**6,670**	**547,553**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.4. Liquidity risk (continued)

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

Bank 31 December 2024	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	54,375	41	29,752	299	11,045	95,512
Borrowings	37,038	53,712	318,952	793,561	1,392,921	2,596,184
Provisions for guarantees, commitments and other liabilities	10,471	710	2,400	5,627	4,160	23,368
Other liabilities	38,208	2,589	8,757	20,531	15,179	85,264
Total	**140,092**	**57,052**	**359,861**	**820,018**	**1,423,305**	**2,800,328**
Guarantees and commitments						
Issued guarantees	59,473	-	-	-	-	59,473
Issued guarantees in foreign currency	4,846	-	-	-	-	4,846
Undrawn loans	480,198	-	-	-	-	480,198
EIF – subscribed, not called up	10,400	-	-	-	-	10,400
EIF CROGIP Contracted Liability	145	2,005	6,450	11,724	4,536	24,860
EIF FRC2 Contracted Liability	5	-	3	16	19	43
Total guarantees and commitments	**555,067**	**2,005**	**6,453**	**11,740**	**4,555**	**579,820**

Bank 31 December 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	148,059	12,586	18,604	46	15,581	194,876
Borrowings	61,798	166,698	296,933	723,743	1,268,546	2,517,718
Provisions for guarantees, commitments and other liabilities	10,561	851	3,203	6,343	3,422	24,380
Other liabilities	39,304	3,167	11,921	23,605	12,732	90,729
Total	**259,722**	**183,302**	**330,661**	**753,737**	**1,300,281**	**2,827,703**
Guarantees and commitments						
Issued guarantees	52,623	-	-	-	-	52,623
Issued guarantees in foreign currency	7,716	-	-	-	-	7,716
Undrawn loans	445,273	-	-	-	-	445,273
EIF – subscribed, not called up	10,400	-	-	-	-	10,400
EIF CROGIP Contracted Liability	129	1,467	7,404	15,800	6,660	31,460
EIF FRC2 Contracted Liability	14	4	13	40	10	81
Total guarantees and commitments	**516,155**	**1,471**	**7,417**	**15,840**	**6,670**	**547,553**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.5. Market risk

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

31.5.1. Interest rate risk

The following tables demonstrate the sensitivity of the Group to the interest rate risk as of 31 December 2024 and 2023 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter.

Assets and liabilities on which interest is not charged are placed into the non-interest bearing category. The tables below demonstrate the estimation of Group's interest rate risk exposure as of 31 December 2024 and 2023 which may not be indicative for the positions in other periods.

Group 31 December 2024	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	Non-interest bearing EUR '000	Total EUR '000	Fixed interest rate EUR '000
Assets								
Cash on hand and current accounts with banks	46,061	-	-	-	-	-	46,061	46,061
Deposits with other banks	92,370	-	-	-	-	1,501	93,871	92,370
Loans to financial institutions	69,607	85,346	152,427	347,364	570,236	829	1,225,809	1,204,788
Loans to other customers	190,511	144,330	304,097	555,241	1,088,168	26,089	2,308,436	2,199,677
Financial assets at fair value through profit or loss	-	-	-	32,233	-	34,814	67,047	32,233
Financial assets at fair value through other comprehensive income	3	103,293	1,324	66,608	62,781	11,378	245,387	234,009
Other assets	-	-	-	-	-	5,801	5,801	-
Total assets	**398,552**	**332,969**	**457,848**	**1,001,446**	**1,721,185**	**80,412**	**3,992,412**	**3,809,138**
Liabilities								
Deposits from customers	44,448	-	-	-	-	51,064	95,512	44,448
Borrowings	31,459	48,309	336,241	684,238	1,180,400	7,621	2,288,268	2,220,444
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	23,368	23,368	-
Other liabilities	-	-	-	-	-	88,213	88,213	-
Total liabilities	**75,907**	**48,309**	**336,241**	**684,238**	**1,180,400**	**170,266**	**2,495,361**	**2,264,892**
Interest rate gap	**322,645**	**284,660**	**121,607**	**317,208**	**540,785**	**(89,854)**	**1,497,051**	**1,544,246**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.5. Market risk (continued)

31.5.1. Interest rate risk (continued)

Group 31 December 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	Non-interest bearing EUR '000	Total EUR '000	Fixed interest rate EUR '000
Assets								
Cash on hand and current accounts with banks	42,133	-	-	-	-	-	42,133	42,133
Deposits with other banks	70,431	-	-	-	-	1,330	71,761	70,431
Loans to financial institutions	87,993	168,026	128,016	301,413	561,073	2,360	1,248,881	1,235,651
Loans to other customers	239,908	94,026	284,057	574,254	1,136,498	22,453	2,351,196	2,200,795
Financial assets at fair value through profit or loss	-	-	-	33,698	-	19,224	52,922	33,698
Financial assets at fair value through other comprehensive income	13,332	4,976	52,642	110,714	42,647	10,888	235,199	224,311
Other assets	-	-	-	-	-	12,285	12,285	-
Total assets	**453,797**	**267,028**	**464,715**	**1,020,079**	**1,740,218**	**68,540**	**4,014,377**	**3,807,019**
Liabilities								
Deposits from customers	77,717	-	-	-	-	117,159	194,876	77,717
Borrowings	59,925	162,220	301,277	637,050	1,084,967	5,737	2,251,176	2,198,507
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	24,382	24,382	-
Other liabilities	-	-	-	-	-	93,223	93,223	-
Total liabilities	**137,642**	**162,220**	**301,277**	**637,050**	**1,084,967**	**240,501**	**2,563,657**	**2,276,224**
Interest rate gap	**316,155**	**104,808**	**163,438**	**383,029**	**655,251**	**(171,961)**	**1,450,720**	**1,530,795**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.5. Market risk (continued)

31.5.1. Interest rate risk (continued)

The following tables demonstrate the sensitivity of HBOR to the interest rate risk as of 31 December 2024 and 2023 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter.

Assets and liabilities on which interest is not charged are placed into the non-interest bearing category. The tables below demonstrate the estimation of HBOR´s interest rate risk exposure as of 31 December 2024 and 2023 which may not be indicative for the positions in other periods.

Bank 31 December 2024	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
	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	45,543	-	-	-	-	-	45,543	45,543
Deposits with other banks	88,926	-	-	-	-	1,484	90,410	88,926
Loans to financial institutions	69,607	85,346	152,427	347,364	570,236	829	1,225,809	1,204,788
Loans to other customers	190,511	144,330	304,097	555,241	1,088,168	26,089	2,308,436	2,199,677
Financial assets at fair value through profit or loss	-	-	-	32,233	-	34,814	67,047	32,233
Financial assets at fair value through other comprehensive income	3	103,293	8	65,527	59,054	11,337	239,222	227,885
Other assets	-	-	-	-	-	4,967	4,967	-
Total assets	**394,590**	**332,969**	**456,532**	**1,000,365**	**1,717,458**	**79,520**	**3,981,434**	**3,799,052**
Liabilities								
Deposits from customers	44,448	-	-	-	-	51,064	95,512	44,448
Borrowings	31,459	48,309	336,241	684,238	1,180,400	7,621	2,288,268	2,220,444
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	23,368	23,368	-
Other liabilities	-	-	-	-	-	85,264	85,264	-
Total liabilities	**75,907**	**48,309**	**336,241**	**684,238**	**1,180,400**	**167,317**	**2,492,412**	**2,264,892**
Interest rate gap	**318,683**	**284,660**	**120,291**	**316,127**	**537,058**	**(87,797)**	**1,489,022**	**1,534,160**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.5. Market risk (continued)

31.5.1. Interest rate risk (continued)

Bank 31 December 2023	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
	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	41,543	-	-	-	-	-	41,543	41,543
Deposits with other banks	68,126	-	-	-	-	1,330	69,456	68,126
Loans to financial institutions	87,993	168,026	128,016	301,413	561,073	2,360	1,248,881	1,235,651
Loans to other customers	239,908	94,026	284,057	574,254	1,136,498	22,453	2,351,196	2,200,795
Financial assets at fair value through profit or loss	-	-	-	33,698	-	19,224	52,922	33,698
Financial assets at fair value through other comprehensive income	6,991	4,976	52,642	110,714	42,647	10,888	228,858	217,970
Other assets	-	-	-	-	-	11,365	11,365	-
Total assets	**444,561**	**267,028**	**464,715**	**1,020,079**	**1,740,218**	**67,620**	**4,004,221**	**3,797,783**
Liabilities								
Deposits from customers	77,717	-	-	-	-	117,159	194,876	77,717
Borrowings	59,925	162,220	301,277	637,050	1,084,967	5,737	2,251,176	2,198,507
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	24,380	24,380	-
Other liabilities	-	-	-	-	-	90,729	90,729	-
Total liabilities	**137,642**	**162,220**	**301,277**	**637,050**	**1,084,967**	**238,005**	**2,561,161**	**2,276,224**
Interest rate gap	**306,919**	**104,808**	**163,438**	**383,029**	**655,251**	**(170,385)**	**1,443,060**	**1,521,559**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.5. Market risk (continued)

31.5.1. Interest rate risk (continued)

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

	Group		Bank	
	31 December 2024 EUR '000	31 December 2023 EUR '000	31 December 2024 EUR '000	31 December 2023 EUR '000
Assets				
Fixed interest rate assets	3,809,138	3,807,019	3,799,052	3,797,783
Variable interest rate assets	102,862	138,818	102,862	138,818
Non-interest bearing	80,412	68,540	79,520	67,620
Total	**3,992,412**	**4,014,377**	**3,981,434**	**4,004,221**
Liabilities				
Fixed interest rate liabilities	2,264,892	2,276,224	2,264,892	2,276,224
Variable interest rate liabilities	60,203	46,932	60,203	46,932
Non-interest bearing	170,266	240,501	167,317	238,005
Total liabilities	**2,495,361**	**2,563,657**	**2,492,412**	**2,561,161**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.5. Market risk (continued)

31.5.1. Interest rate risk (continued)

Sensitivity analysis

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

Volatility of reference interest rates for 2024 has been determined using the standard deviation method on the daily changes of the reference interest rates linked to EUR and USD. On the basis of the above volatility, possible changes in reference interest rates linked to EUR and USD have been established and used in the sensitivity analysis.

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

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

Currency	Increase in b,p, in 2024	Effect on profit in 2024	Increase in b,p, in 2023	Effect on profit in 2023
		EUR '000		EUR '000
EUR	+0.2	1	+0.6	5
USD	+0.1	-	+0.4	0.4

Currency	Decrease in b,p, in 2024	Effect on profit in 2024	Decrease in b,p, in 2023	Effect on profit in 2023
		EUR '000		EUR '000
EUR	-0.2	(1)	-0.6	(5)
USD	-0.1	-	-0.4	(0.4)

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.5. Market risk (continued)

31.5.2. Currency risk

Total assets and total liabilities as of 31 December 2024 and 31 December 2023 in EUR and foreign currencies can be shown as follows:

Group 31 December 2024	EUR EUR '000	USD EUR '000	Other foreign currencies EUR '000	Total EUR '000
Assets				
Cash on hand and current accounts with banks	45,832	209	20	46,061
Deposits with other banks	92,915	956	-	93,871
Loans to financial institutions	1,225,809	-	-	1,225,809
Loans to other customers	2,272,023	13,838	22,575	2,308,436
Financial assets at fair value through profit or loss	63,954	3,093	-	67,047
Financial assets at fair value through other comprehensive income	245,387	-	-	245,387
Property, plant and equipment and intangible assets	5,095	-	-	5,095
Foreclosed assets	2,140	-	-	2,140
Other assets	5,801	-	-	5,801
Total assets	**3,958,956**	**18,096**	**22,595**	**3,999,647**
Liabilities				
Deposits from customers	79,949	15,563	-	95,512
Borrowings	2,269,796	18,472	-	2,288,268
Provisions for guarantees, commitments and other liabilities	21,928	-	1,440	23,368
Other liabilities	88,213	-	-	88,213
Total liabilities	**2,459,886**	**34,035**	**1,440**	**2,495,361**
Currency gap	**1,499,070**	**(15,939)**	**21,155**	**1,504,286**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.5. Market risk (continued)

31.5.2. Currency risk (continued)

Group 31 December 2023	EUR EUR '000	USD EUR '000	Other foreign currencies EUR '000	Total EUR '000
Assets				
Cash on hand and current accounts with banks	42,023	91	19	42,133
Deposits with other banks	69,318	2,443	-	71,761
Loans to financial institutions	1,248,881	-	-	1,248,881
Loans to other customers	2,302,547	26,458	22,191	2,351,196
Financial assets at fair value through profit or loss	48,034	4,888	-	52,922
Financial assets at fair value through other comprehensive income	235,199	-	-	235,199
Property, plant and equipment and intangible assets	4,868	-	-	4,868
Foreclosed assets	2,291	-	-	2,291
Other assets	12,285	-	-	12,285
Total assets	**3,965,446**	**33,880**	**22,210**	**4,021,536**
Liabilities				
Deposits from customers	180,779	14,097	-	194,876
Borrowings	2,230,910	20,266	-	2,251,176
Provisions for guarantees, commitments and other liabilities	21,957	66	2,359	24,382
Other liabilities	93,223	-	-	93,223
Total liabilities	**2,526,869**	**34,429**	**2,359**	**2,563,657**
Currency gap	**1,438,577**	**(549)**	**19,851**	**1,457,879**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.5. Market risk (continued)

31.5.2. Currency risk (continued)

Total assets and total liabilities as of 31 December 2024 and 31 December 2023 in EUR and foreign currencies can be shown as follows:

Bank 31 December 2024	EUR EUR '000	USD EUR '000	Other foreign currencies EUR '000	Total EUR '000
Assets				
Cash on hand and current accounts with banks	45,314	209	20	45,543
Deposits with other banks	89,454	956	-	90,410
Loans to financial institutions	1,225,809	-	-	1,225,809
Loans to other customers	2,272,023	13,838	22,575	2,308,436
Financial assets at fair value through profit or loss	63,954	3,093	-	67,047
Financial assets at fair value through other comprehensive income	239,222	-	-	239,222
Investments in subsidiaries	7,449	-	-	7,449
Property, plant and equipment and intangible assets	4,882	-	-	4,882
Foreclosed assets	2,140	-	-	2,140
Other assets	4,967	-	-	4,967
Total assets	**3,955,214**	**18,096**	**22,595**	**3,995,905**
Liabilities				
Deposits from customers	79,949	15,563	-	95,512
Borrowings	2,230,910	20,266	-	2,251,176
Provisions for guarantees, commitments and other liabilities	21,928	-	1,440	23,368
Other liabilities	85,264	-	-	85,264
Total liabilities	**2,456,937**	**34,035**	**1,440**	**2,492,412**
Currency gap	**1,498,277**	**(15,939)**	**21,155**	**1,503,493**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

31. Risk management (continued)

31.5. Market risk (continued)

31.5.2. Currency risk (continued)

Bank 31 December 2023	EUR EUR '000	USD EUR '000	Other foreign currencies EUR '000	Total EUR '000
Assets				
Cash on hand and current accounts with banks	41,433	91	19	41,543
Deposits with other banks	67,013	2,443	-	69,456
Loans to financial institutions	1,248,881	-	-	1,248,881
Loans to other customers	2,302,547	26,458	22,191	2,351,196
Financial assets at fair value through profit or loss	48,034	4,888	-	52,922
Financial assets at fair value through other comprehensive income	228,858	-	-	228,858
Investments in subsidiaries	7,449	-	-	7,449
Property, plant and equipment and intangible assets	4,723	-	-	4,723
Foreclosed assets	2,291	-	-	2,291
Other assets	11,365	-	-	11,365
Total assets	**3,962,594**	**33,880**	**22,210**	**4,018,684**
Liabilities				
Deposits from customers	180,779	14,097	-	194,876
Borrowings	2,230,910	20,266	-	2,251,176
Provisions for guarantees, commitments and other liabilities	21,955	66	2,359	24,380
Other liabilities	90,729	-	-	90,729
Total liabilities	**2,524,373**	**34,429**	**2,359**	**2,561,161**
Currency gap	**1,438,221**	**(549)**	**19,851**	**1,457,523**

31. Risk management (continued)

31.5. Market risk (continued)

31.5.2. Currency risk (continued)

Sensitivity analysis

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

An assumption of reasonably possible fluctuations in 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 31 December 2024.

Volatility of the exchange rate EUR/USD determined using the standard deviation method on the changes of the foreign exchange rate EUR/USD, equalled 5.85% in the last 12 months.

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

	Change in currency rate in 2024 %	Effect on profit in 2024 EUR' 000	Change in currency rate in 2023 %	Effect on profit in 2023 EUR' 000
USD	+5.85	877	+7.39	27
USD	-5.85	(986)	-7.39	(52)

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

32. Fair value of financial assets and financial liabilities

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

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

Below is a breakdown of the financial assets at fair value based on IFRS 9 classification on 31 December 2024 and 31 December 2023.

Group	31 December 2024		
	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	-	-	32,233
Investments in investment funds:			
Investments in investment funds at fair value through profit or loss	34,529	-	-
Equity instruments:			
Listed equity instruments:			
Investments in corporate shares			
Unlisted equity instruments:			
Investments in corporate shares	-	-	-
Depository receipt - DR	-	-	42
Derivative financial assets-positive fair value			
FX swap	-	243	-
Total financial assets at fair value through profit or loss	**34,529**	**243**	**32,275**
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	221,308	-	-
Corporate bonds	571	-	-
Treasury bills of the Ministry of Finance	11,919	-	-
Accrued interest	3,304	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	73
Convertible bonds - CB	-	-	137
Accrued interest	-	-	2
Total debt instruments	**237,102**	**-**	**212**
Unlisted equity instruments:			
Investment in shares of foreign legal entities - SWIFT	-	8	-
Shares of foreign financial institutions – EIF	-	8,065	-
Total equity instruments	**-**	**8,073**	**-**
Total financial assets at fair value through other comprehensive income	**237,102**	**8,073**	**212**
Derivative financial liabilities			
FX swap	**-**	**15**	**-**
Total liabilities	**-**	**15**	**-**

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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

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

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

Group	31 December 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	-	-	33,698
Investments in investment funds:			
Investments in investment funds at fair value through profit or loss	19,171	-	-
Equity instruments:			
Listed equity instruments:			
Investments in corporate shares			
Unlisted equity instruments:			
Investments in corporate shares	-	-	-
Depository receipt - DR	-	-	42
Derivative financial assets-positive fair value			
FX swap	-	11	-
Total financial assets at fair value through profit or loss	**19,171**	**11**	**33,740**
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	185,225	-	-
Corporate bonds	303	-	-
Treasury bills of the Ministry of Finance	38,451	-	-
Accrued interest	3,177	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	81
Convertible bonds - CB	-	-	195
Accrued interest	-	-	2
Total debt instruments	**227,156**	**-**	**278**
Unlisted equity instruments:			
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	**227,156**	**7,765**	**278**
Derivative financial liabilities			
FX swap	**-**	**100**	**-**
Total liabilities	**-**	**100**	**-**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

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

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

Bank	31 December 2024		
	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	-	-	32,233
Investments in investment funds:			
Investments in investment funds at fair value through profit or loss	34,529	-	-
Equity instruments:			
Listed equity instruments:			
Investments in companies' shares			
Unlisted equity instruments:			
Investments in companies' shares	-	-	-
Depository receipt - DR	-	-	42
Derivative financial assets-positive fair value			
FX swap	-	243	-
Total financial assets at fair value through profit or loss	**34,529**	**243**	**32,275**
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	215,756	-	-
Treasury bills of the Ministry of Finance	11,919	-	-
Accrued interest	3,262	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	73
Convertible bonds - CB	-	-	137
Accrued interest	-	-	2
Total debt instruments	**230,937**	**-**	**212**
Unlisted equity instruments:			
Investment in shares of foreign legal entities – SWIFT	-	8	-
Shares of foreign financial institutions – EIF	-	8,065	-
Total equity instruments	**-**	**8,073**	**-**
Total financial assets at fair value through other comprehensive income	**230,937**	**8,073**	**212**
Derivative financial liabilities			
FX swap	**-**	**15**	**-**
Total liabilities	**-**	**15**	**-**

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

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

Bank	31 December 2023		
	Level 1	Level 2	Level 3
	EUR '000	EUR '000	EUR '000
Financial assets at fair value through profit or loss:			
Loans at FVPL:			
Mezzanine loans	-	-	33,698
Investments in investment funds:			
Investments in investment funds at fair value through profit or loss	19,171	-	-
Equity instruments:			
Listed equity instruments:			
Investments in companies' shares			
Unlisted equity instruments:			
Investments in companies' shares	-	-	-
Depository receipt - DR	-	-	42
Derivative financial assets-positive fair value			
FX swap	-	11	-
Total financial assets at fair value through profit or loss	**19,171**	**11**	**33,740**
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	179,243	-	-
Treasury bills of the Ministry of Finance	38,451	-	-
Accrued interest	3,121	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	81
Convertible bonds - CB	-	-	195
Accrued interest	-	-	2
Total debt instruments	**220,815**	**-**	**278**
Unlisted equity instruments:			
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	**220,815**	**7,765**	**278**
Derivative financial liabilities			
FX swap	**-**	**100**	**-**
Total liabilities	**-**	**100**	**-**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

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

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

32.1.1. Level 3 - fair value

a) Mezzanine loans

For the assessment of fair value of mezzanine loans, the method of discounting expected future cash flows is used.
Due to their contractual characteristics, mezzanine loans do not pass the SPPI test, Characteristics due to which mezzanine loans do not pass the SPPI test are as follows:

- the debtor has the right of premature repayment of mezzanine debt to the creditor,
- in the case of realisation of contractually defined indicators of the debtor's performance (debtor's net debt to average EBITDA ratio for the previous three years must be lower than the limit) over the predetermined period, creditor of the mezzanine debt has the right, but not the obligation, to covert 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 ships 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 Bank would, upon the final maturity of the mezzanine loan, convert its receivables into the debtor's equity.

On 31 December 2024, the market price of ordinary shares of the debtor that the Bank could subscribe amounted to EUR 3,093 thousand, assuming that the market price of the shares included all market expectations related to future operations of the issuer. Given that the calculation was made on the assumption that the debtor's mezzanine debt had been converted into the debtor's equity on 31 December 2024, there is no need to discount the market value of the debtor's ordinary shares that the Bank could subscribe and in this way of settlement, the estimated fair value of the mezzanine loan on 31 December 2024 amounted to EUR 3,093 thousand, i,e, USD 3,231 thousand at the exchange rate on 31 December 2024.

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 3,093 thousand.

In the reporting period, a new mezzanine loan was placed in the amount of EUR 30,000 thousand. As at 31 December 2024, the fair value of this mezzanine debt stood at EUR 29,140 thousand (31 December 2023.: EUR 28,810 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 31 December 2024, the total fair value of the mezzanine debt stood at EUR 32,233 thousand.

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

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

32.1.1. 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 31 December 2024, under the assumption of a change in discount rate (yield) of 2% and 10%

Under the assumption that the market interest rates change by 2% compared with those in effect as at 31 December 2024, 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 15.36%, the bond price would be 44.28%, 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 19.36%, the bond price would be 43.10%, 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 31 December 2024. "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 7.2 thousand.

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)

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

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

32.1.1. Level 3 - fair value (continued)

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	**2024 EUR '000**	**2023 EUR '000**
Balance as of 1 January	**33,698**	**3,030**
New loan	-	30,000
(Decrease)/increase in fair value through profit or loss	(1,707)	826
Net foreign exchange	242	(158)
Sale of mezzanine loans	-	-
Balance as of 31 December	**32,233**	**33,698**

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

Group and Bank	**2024 EUR '000**	**2023 EUR '000**
Balance as of 1 January	**278**	**261**
Increase in fair value through other comprehensive income	106	36
Redemption of bonds	(154)	-
Principal due date	(20)	(17)
Net foreign exchange	-	-
Accrued interest	2	(2)
Balance as of 31 December	**212**	**278**

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

32.2. Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by level in the fair value hierarchy into which each fair value measurement is categorized.

Group 31 December 2024	Level 1 EUR '000	Level 2 EUR '000	Level 3 EUR '000	Total fair values EUR '000	Total carrying amount EUR '000
Assets					
Cash on hand and current accounts with banks	46,061	-	-	46,061	46,061
Deposits with other banks	-	93,871	-	93,871	93,871
Loans to financial institutions	-	-	1,245,143	1,245,143	1,225,809
Loans to other customers	-	-	2,463,163	2,463,163	2,308,436
	46,061	**93,871**	**3,708,306**	**3,848,238**	**3,674,177**
Liabilities					
Deposits from customers	-	95,512	-	95,512	95,512
Borrowings	-	-	2,187,516	2,187,516	2,288,268
	-	**95,512**	**2,187,516**	**2,283,028**	**2,383,780**

Group 31 December 2023	Level 1 EUR '000	Level 2 EUR '000	Level 3 EUR '000	Total fair values EUR '000	Total carrying amount EUR '000
Assets					
Cash on hand and current accounts with banks	42,133	-	-	42,133	42,133
Deposits with other banks	-	71,761	-	71,761	71,761
Loans to financial institutions	-	-	1,170,611	1,170,611	1,248,881
Loans to other customers	-	-	2,421,766	2,421,766	2,351,196
	42,133	**71,761**	**3,592,377**	**3,706,271**	**3,713,971**
Liabilities					
Deposits from customers	-	194,876	-	194,876	194,876
Borrowings	-	-	2,083,242	2,083,242	2,251,176
	-	**194,876**	**2,083,242**	**2,278,118**	**2,446,052**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

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

32.2. Financial instruments not measured at fair value (continued)

Bank 31 December 2024	Level 1 EUR '000	Level 2 EUR '000	Level 3 EUR '000	Total fair values EUR '000	Total carrying amount EUR '000
Assets					
Cash on hand and current accounts with banks	45,543	-	-	45,543	45,543
Deposits with other banks	-	90,410	-	90,410	90,410
Loans to financial institutions	-	-	1,245,143	1,245,143	1,225,809
Loans to other customers	-	-	2,463,163	2,463,163	2,308,436
	45,543	**90,410**	**3,708,306**	**3,844,259**	**3,670,198**
Liabilities					
Deposits from customers	-	95,512	-	95,512	95,512
Borrowings	-	-	2,187,516	2,187,516	2,288,268
	-	**95,512**	**2,187,516**	**2,283,028**	**2,383,780**

Bank 31 December 2023	Level 1 EUR '000	Level 2 EUR '000	Level 3 EUR '000	Total fair values EUR '000	Total carrying amount EUR '000
Assets					
Cash on hand and current accounts with banks	41,543	-	-	41,543	41,543
Deposits with other banks	-	69,456	-	69,456	69,456
Loans to financial institutions	-	-	1,170,611	1,170,611	1,248,881
Loans to other customers	-	-	2,421,766	2,421,766	2,351,196
	41,543	**69,456**	**3,592,377**	**3,703,376**	**3,711,076**
Liabilities					
Deposits from customers	-	194,876	-	194,876	194,876
Borrowings	-	-	2,083,242	2,083,242	2,251,176
	-	**194,876**	**2,083,242**	**2,278,118**	**2,446,052**

33. Reporting by segments

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

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

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

Business segments:

The Group has following business segments:

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

33. Reporting by segments (continued)

Jan 1 – Dec 31, 2024	**Banking activities EUR '000**	**Insurance activities EUR '000**	**Other activities EUR '000**	**Unallocated EUR '000**	**Total EUR '000**
Net interest income	74,399	252	-	-	74,651
Income from the cancellation of the subsidy deferral at the expense of HBOR's operations	598	-	-	-	598
Net fee income	1,589	-	314	-	1,903
Net income/(expenses) from financial operations	768	-	3	-	771
Impairment gain	-	-	-	-	-
Net premiums earned	-	2,388	-	-	2,388
Other income	3,122	323	43	(41)	3,447
Income from operating activities	**80,476**	**2,963**	**360**	**(41)**	**83,758**
Operating costs	(28,335)	(1,053)	(326)	41	(29,673)
Impairment loss and provisions	(8,543)	-	-	-	(8,543)
Subsidy costs at the expense of HBOR's operations	(3,701)	-	-	-	(3,701)
Expenses for insured cases	-	-	-	-	-
Net change in provisions	-	(314)	-	-	(314)
Net income/(expenses) from financial operations	-	(4)	-	-	(4)
Other expenses	-	(1,277)	-	-	(1,277)
Operating expenses	**(40,579)**	**(2,648)**	**(326)**	**41**	**(43,512)**
Profit before income tax	39,897	315	34	-	40,246
Income tax	-	(61)	(3)	-	(64)
Profit for the year	**39,897**	**254**	**31**	**-**	**40,182**
31 December 2024					
Assets of segment	3,995,905	11,124	193	(7,575)	3,999,647
Total assets	**3,995,905**	**11,124**	**193**	**(7,575)**	**3,999,647**
Liabilities of segment	2,492,412	2,923	86	(60)	2,495,361
Total equity	1,503,493	8,145	67	(7,419)	1,504,286
Total liabilities and total equity	**3,995,905**	**11,068**	**153**	**(7,479)**	**3,999,647**

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.

33. Reporting by segments (continued)

Jan 1 – Dec 31, 2023	Banking activities EUR '000	Insurance activities EUR '000	Other activities EUR '000	Unallocated EUR '000	Total EUR '000
Net interest income	66,358	236	-		66,594
Net fee income	3,041	-	277	-	3,318
Net income/(expenses) from financial operations	1,740	-	2	-	1,742
Impairment gain	-	-	-	-	-
Net premiums earned	-	2,555	-	-	2,555
Other income	2,140	287	42	(39)	2,430
Income from operating activities	**73,279**	**3,078**	**321**	**(39)**	**76,639**
Operating costs	(26,044)	(565)	(290)	39	(26,860)
Impairment loss and provisions	(15,918)	(2)	5	-	(15,915)
Subsidy costs at the expense of HBOR's operations	(1,475)	-	-	-	(1,475)
Expenses for insured cases	-	-	-	-	-
Net change in provisions	-	(277)	-	-	(277)
Net income/(expenses) from financial operations	-	(2)	-	-	(2)
Other expenses	-	(2,140)	-	-	(2,140)
Operating expenses	**(43,437)**	**(2,986)**	**(285)**	**39**	**(46,669)**
Profit before income tax	29,842	92	36	-	29,970
Income tax	-	(23)	-	-	(23)
Profit for the year	**29,842**	**69**	**36**	**-**	**29,947**
31 December 2023					
Assets of segment	4,018,684	10,222	149	(7,519)	4,021,536
Total assets	**4,018,684**	**10,222**	**149**	**(7,519)**	**4,021,536**
Liabilities of segment	2,561,161	2,484	16	(4)	2,563,657
Total equity	1,457,523	49	93	214	1,457,879
Total liabilities and total equity	**4,018,684**	**2,533**	**109**	**210**	**4,021,536**

Intra-group transactions are presented under "Unallocated".

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

34. Capital management

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

The Group has identified the regulatory capital as a manageable capital category.

Regulatory capital is the funding source amount that is maintained for the purpose of safe and stable operations, i.e., for the purpose of fulfilling the obligations towards the creditors.

HBOR's regulatory capital is the sum of the equity capital and the supplementary capital.

HBOR ensures that it has at all times an amount of capital adequate to the types, scope and complexity of operations it performs and the risks it is or could be exposed to in its operations.
HBOR's total capital ratio is calculated as the ratio between the regulatory capital and the total:

- 1. amount of credit risk weighted exposure (prescribed by the Methodology for the Calculation of HBOR's Total Capital Ratio), and
- 2. amount of initial capital requirements for market risks, settlement risk and operational risk (prescribed by the Methodology for the Calculation of HBOR's Total Capital Ratio) multiplied by 12.5.

The total capital ratio is calculated on the basis of the internal methodology based on the regulatory framework in accordance with Basel II calculation requirements, on the application of certain provisions of the banking regulations in effect depending on the possibilities of HBOR's system and with further strategic focus on its development in accordance with the banking regulations in effect as applicable to HBOR as a development and export bank of the Republic of Croatia.

Risk appetite relates to the level and type of risk that HBOR is willing to take in order to achieve the goals of its business strategy, and it is always determined within the defined risk bearing capacity that represents the highest level of risk that HBOR can take considering its capital base, its risk management and control ability and regulatory restrictions if prescribed and applicable to HBOR.

Within the framework of defining the risk appetite at the strategic level, a minimum acceptable total capital ratio of 20% was determined.

The text to follow contains a breakdown of capital adequacy ratio as at 31 December 2024 and 31 December 2023.

	Group		Bank	
	31 December 2024 EUR '000	31 December 2023 EUR '000	31 December 2024 EUR '000	31 December 2023 EUR '000
Total regulatory capital	**1,498,852**	**1,452,021**	**1,498,634**	**1,452,008**
Credit risk weighted exposure amount	2,398,598	2,528,975	2,396,236	2,527,125
Capital requirements for operating risk	144,263	136,878	139,138	132,563
Capital requirements for currency risk	-	-	-	-
Total capital requirements	**2,542,861**	**2,665,853**	**2,535,374**	**2,659,688**
	%	%	%	%
Capital adequacy ratio	**58.94**	**54.47**	**59.11**	**54.59**
	EUR '000	EUR '000	EUR '000	EUR '000
Own funds needed for ensuring capital adequacy according to regulatory requirements	**305,143**	**319,902**	**304,245**	**319,163**

Notes to the Financial Statements which include significant accounting policies and other explanations
for the year ended 31 December 2024 (continued)
(All amounts are expressed in thousands of Euros)

35. Earnings per share

Pursuant to the HBOR Act, the equity capital of the Bank consists of one share in the company that may not be divided, transferred, or pledged and is owned solely by the Republic of Croatia.
For the purpose of calculation of earnings per share, earning is presented as net profit after taxation.

36. Events after the reporting period date

36.1. Supervisory Board of HBOR

After the reporting period, the Government of the Republic of Croatia, at its meeting held on 13 March 2025, made a Decision on the appointment of David Vlajčić, Deputy Prime Minister of the Republic of Croatia and Minister of Agriculture, Forestry and Fisheries, as a member of the Supervisory Board of the Croatian Bank for Reconstruction and Development. Prior to that, the Government of the Republic of Croatia, at the same meeting, made a Decision on the dismissal of Josip Dabro, as a member of the Supervisory Board of the Croatian Bank for Reconstruction and Development.

Pursuant to the aforementioned, HBOR's Supervisory Board has consisted of the following members as of 13 March 2025:

- Marko Primorac, PhD, associate professor, Minister of Finance - ex officio President of the Supervisory Board,
- Ante Šušnjar, Minister of the Economy – ex officio Deputy President of the Supervisory Board,
- Šime Erlić, Minister of Regional Development and EU Funds,
- Branko Bačić, Deputy Prime Minister of the Republic of Croatia and Minister of Physical Planning, Construction and State Assets,
- Marija Vučković, MSc, Minister of Environmental Protection and Green Transition,
- David Vlajčić, Deputy Prime Minister of the Republic of Croatia and Minister of Agriculture, Forestry and Fisheries,
- Luka Burilović, PhD, Chairman of the Croatian Chamber of Economy – ex officio Member of the Supervisory Board,
- Branka Juričev-Martinčev, member of Parliament,
- Predrag Štromar, member of Parliament,
- Boris Piližota, MSc, member of Parliament.

Appendix - financial performance of the HKO Group
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December
(All amounts are expressed in thousands of Euros)

	2024 EUR '000	2023 EUR '000
Income from insurance contracts	**2,702**	**2,832**
Premium earned		
Gross premium written	-	-
Premium impairment allowance originated and reserved on collection	-	-
Gross outward reinsurance premium	-	-
Net premium written	**-**	**-**
Changes in the gross unearned premium reserve	-	-
Changes in the gross unearned premium reserve, reinsurer's share	-	-
Net premium earned	**-**	**-**
Fee and commission income	-	-
Net investment income	251	236
Other operating income	11	13
Net income	**2,964**	**3,081**
Gross expense for returned premiums	-	-
Reinsurer's share	-	-
Gross reserve for returned premiums	-	-
Reinsurer's share	-	-
Net expense and reserve for returned premiums	**-**	**-**
Expenses from insurance contracts	**(2,086)**	**(2,673)**
Net result of (passive) reinsurance contract	**(525)**	**(281)**
Claims incurred	-	-
Claims incurred, reinsurer's share	-	-
Change in the claims provision	-	-
Change in the claims provision, reinsurer's share	-	-
Net claims incurred	**-**	**-**
Marketing and provision expenses	-	-
Administrative expenses	-	-
Other operating expenses	(4)	1
Net exchange differences other than those on financial instruments	-	-
Profit before income tax	**349**	**128**
Income tax	(64)	(23)
Profit for the year	**285**	**105**
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	242	350
Decrease in the fair value of financial assets available for sale	(76)	(253)
Decrease of financial assets at fair value through other comprehensive income	(1)	1
Deferred tax	(30)	(18)
Total items that may be reclassified subsequently to profit or loss:	**135**	**80**
Other comprehensive income after income tax	**135**	**80**
Total comprehensive income after income tax	**420**	**185**
Attributable to:		
Equity holder of the parent	420	185

Appendix - financial performance of the HKO Group
Statement of Financial Position
as of 31 December

(All amounts are expressed in thousands of Euros)

	2024 EUR '000	2023 EUR '000
Assets		
Non-current assets		
Property and equipment	146	53
Intangible assets	67	92
Deferred tax assets	91	140
Total non-current assets	**304**	**285**
Current assets		
Investments available for sale	6,165	6,342
Deposits with banks	3,461	2,305
Assets related to insurance contracts	683	733
Receivables from insurance operations	-	-
Other receivables	59	46
Cash and cash equivalents	518	590
Total current assets	**10,886**	**10,016**
Total assets	**11,190**	**10,301**
Equity and liabilities		
Equity		
Share capital	7,648	7,648
Retained earnings and reserves	806	663
Other reserves	(498)	(611)
Profit for the year	285	105
Total equity	**8,241**	**7,805**
Technical provisions		
Liabilities for remaining coverage	1,053	1,049
Liabilities for incurred claims	1,633	1,291
Gross technical provisions	-	-
Technical provisions, reinsurer's share	-	-
	2,686	**2,340**
Current liabilities		
Liabilities from insurance operations	-	-
Deferred and current tax liability	46	29
Other liabilities	217	127
Total liabilities	**263**	**156**
Total equity and liabilities	**11,190**	**10,301**

Appendix - financial performance of the HKO Group
Statement of Cash Flows
for the year ended 31 December

(All amounts are expressed in thousands of Euros)

	2024 EUR '000	2023 EUR '000
Operating activities		
Profit before income tax	349	128
Adjustments to reconcile to net cash from and used in operating activities:		
Depreciation	82	59
Impairment loss and provisions	-	(3)
Income tax	(2)	-
Accrued interest	7	(7)
Other		-
Premium/discount from FVOC	9	13
Operating profit before working capital changes	*445*	*190*
Changes in operating assets and liabilities:		
Net realized (gain)/loss on assets available for sale	(1,150)	700
Decrease of discount in assets available for sale and assets held to maturity	-	-
Premium receivables	50	(137)
Net (increase)/decrease in other assets	(12)	22
Net decrease of assets and liabilities from insurance operations	-	-
Net increase/(decrease) in technical provisions	346	(800)
Net increase in other liabilities	136	27
Net cash (used in)/provided from operating activities	**(185)**	**2**
Investment activities		
Net purchase of assets available for sale	-	-
Net sale of assets available for sale	264	-
Net purchase of property, plant and equipment and intangible assets	(152)	(129)
Net cash provided from/(used in) investment activities	**112**	**(129)**
Financing activities		
Net increase in founder's capital	-	-
Net cash provided from financing activities	**-**	**-**
Effect of foreign currency to cash and cash equivalents		
Net foreign exchange	1	-
Net effect	**1**	**-**
Net (decrease) in cash and cash equivalents	(72)	(127)
Balance as of 1 January	590	717
Net (decrease) in cash	(72)	(127)
Balance as of 31 December	**518**	**590**

Appendix - financial performance of the HKO Group
Statement of Changes in Equity
for the year ended 31 December

(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 year EUR '000	Total equity attributable to the equity holders of the Company EUR '000	Total equity EUR '000
Balance as of 1 January 2023	**7,632**	**500**	**(691)**	**199**	**7,640**	**7,640**
Profit for the year	-	-	-	105	105	**105**
Other comprehensive income	-	-	80	-	80	**80**
Total comprehensive income	-	-	80	105	185	**185**
Transfer of profit 2022 to retained earnings	-	199	-	(199)	-	**-**
Capital paid in	-	-	-	-	-	**-**
Other adjustments	16	(36)	-	-	(20)	**(20)**
Balance as of 31 December 2023	**7,648**	**663**	**(611)**	**105**	**7,805**	**7,805**
Profit for the year	-	-	-	285	285	**285**
Other comprehensive income	-	-	135	-	135	**135**
Total comprehensive income	-	-	135	285	**420**	**420**
Transfer of profit from 2023 to retained earnings	-	105	-	(105)	**-**	**-**
Capital paid-in						
Other adjustments	-	38	(22)	-	**16**	**16**
Balance as of 31 December 2024	**7,648**	**806**	**(498)**	**285**	**8,241**	**8,241**