

CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Consolidated Interim Condensed Financial Statements for the Period 1 January – 30 June 2016

Zagreb, August 2016

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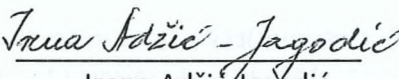
Statement of Persons Responsible for Consolidated Interim Condensed Financial Statements
for the period 1 January – 30 June 2016

We confirm that, to the best of our knowledge, the Consolidated Interim Condensed Financial Statements of the Croatian Bank for Reconstruction and Development Group set out on pages 6 to 93 have been prepared in accordance with International Accounting Standard 34: "Interim Financial Reporting" applicable for the preparation of interim financial statements, and give a true and fair view of assets, liabilities, financial position, financial performance and cash flows for the reporting period.

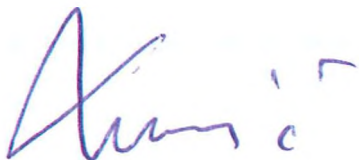
Financial statements present materially important items and information. Assessment of the materiality applies to the whole of the financial statements, including the notes.

In determining what information to disclose in financial statements and accompanying notes professional judgement has been applied.

Specified line items can be disaggregated but are presented consistently on aggregated level for all periods. Notes that include significant accounting policies and other explanations are presented in order of items as presented in Statement of profit or loss and other comprehensive income for the period and Statement of financial position according to the structure applicable for financial institutions.


Irena Adžić-Jagodić

**Accounting Division
Executive Director**



Dušan Tomašević

**President of the
Managing Board**



Martina Jus

**Member of the
Managing Board**



Goran Filipić

**Member of the
Managing Board**

Zagreb, 25 August 2016

Independent auditor's report

To the owner of Croatian Bank for Reconstruction and Development:

We have audited the accompanying condensed separate and consolidated financial statements of Croatian Bank for Reconstruction and Development ("the Bank") and the Group, which comprise the statement of financial position as at 30 June 2016, statement of comprehensive income, statement of changes in equity and cash flow statement for the period then ended and a summary of significant accounting policies and other explanatory information (as set out on pages 6 to 93).

Management Responsibility for the Financial Statements

Management is responsible for the preparation and presentation of these financial statements in accordance with International Accounting Standard 34: "Interim Financial Reporting" and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Independent auditor's report (continued)

Opinion

In our opinion the condensed separate and consolidated financial statements of the Bank and the Group as at 30 June 2016 and for the period then ended are prepared, in all material respects, in accordance with International Accounting Standard 34: "Interim Financial Reporting".



Zvonimir Madunić
Member of Management Board and certified auditor

Ernst & Young d.o.o. Zagreb
Republic of Croatia

Zagreb, 25 August 2016

Consolidated Interim Condensed Financial Statements of the Group
Statement of Profit or Loss
for the period 1 January – 30 June
(All amounts are expressed in HRK thousand)

		2016		2015	
	Notes	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Interest income	4	209,982	429,026	211,727	432,727
Interest expense	5	(113,681)	(228,236)	(119,890)	(240,513)
Net interest income		96,301	200,790	91,837	192,214
Fee income		9,001	15,126	5,059	9,201
Fee expense		(678)	(1,419)	(215)	(313)
Net fee income		8,323	13,707	4,844	8,888
Net gains/(losses) on financial operations		3,366	(10,791)	8,758	8,901
Other income		3,191	6,829	2,554	5,333
		111,181	210,535	107,993	215,336
Operating expenses	6	(40,096)	(81,899)	(33,558)	(67,497)
Impairment loss and provisions	7	(16,492)	(20,958)	(50,370)	(83,349)
Profit before income tax		54,593	107,678	24,065	64,490
Income tax		-	-	-	-
Profit for the year		54,593	107,678	24,065	64,490
Attributable to:					
Equity holders of the parent		54,593	107,678	24,065	64,490

The accompanying selected notes are an integral part of these Interim Condensed Financial Statements.

Consolidated Interim Condensed Financial Statements of the Group
Statement of Profit or Loss and Other Comprehensive Income
for the period 1 January – 30 June
(All amounts are expressed in HRK thousand)

	2016		2015	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Profit for the year	54,593	107,678	24,065	64,490
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Increase in fair value of assets available for sale	13,908	32,083	6,389	20,184
Decrease in fair value of assets available for sale	(13,787)	(17,063)	(19,827)	(22,916)
Net foreign exchange on available for sale equity instruments	(31)	(387)	(196)	(248)
Transfer of realized gains on assets available for sale to statement of profit or loss	(184)	(254)	(1,612)	(1,613)
Deferred tax – other comprehensive income	14	(107)	84	5
Total items that may be reclassified subsequently to profit or loss	(80)	14,272	(15,162)	(4,588)
Other comprehensive income after income tax	(80)	14,272	(15,162)	(4,588)
Total comprehensive income after income tax	54,513	121,950	8,903	59,902
Attributable to:				
Equity holders of the parent	54,513	121,950	8,903	59,902

The accompanying selected notes are an integral part of these Interim Condensed Financial Statements.

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

	Notes	Jun 30, 2016	Dec 31, 2015
Assets			
Cash on hand and due from banks	8	411,947	482,950
Deposits with other banks		165,050	359,397
Loans to financial institutions	9	11,933,124	12,522,652
Loans to other customers	10	9,934,266	9,223,069
Financial assets at fair value through profit or loss		4,494	3,707
Assets available for sale	11	3,469,989	2,870,315
Assets held to maturity		1,420	1,451
Investments in associates		-	-
Property, plant and equipment and intangible assets		58,811	62,238
Non-current assets held for sale		21,782	21,715
Other assets		7,310	5,278
Total assets		26,008,193	25,552,772
Liabilities			
Deposits		286,144	236,636
Borrowings	12	11,946,653	11,478,087
Bonds payable	13	3,239,142	3,366,566
Other liabilities		749,961	806,939
Total liabilities		16,221,900	15,888,228
Equity			
Founder's capital		6,926,632	6,926,632
Retained earnings and reserves		2,682,127	2,475,862
Other reserves		57,555	43,283
Profit for the year		107,678	206,265
Total equity attributable to equity holders of the parent		9,773,992	9,652,042
Guarantee fund		12,301	12,502
Total equity		9,786,293	9,664,544
Total liabilities and total equity		26,008,193	25,552,772

The accompanying selected notes are an integral part of these Interim Condensed Financial Statements.

Consolidated Interim Condensed Financial Statements of the Group
Statement of Cash Flows
for the period 1 January – 30 June
(All amounts are expressed in HRK thousand)

	Notes	2016	2015
Operating activities			
Profit before income tax		107,678	64,490
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation		3,958	4,013
Income tax		107	(5)
Impairment loss and provisions		20,958	83,349
Accrued interest		(78,113)	(99,171)
Deferred fees		(2,585)	(2,324)
<i>Operating profit before working capital changes</i>		<i>52,003</i>	<i>50,352</i>
<i>Changes in operating assets and liabilities:</i>			
Net decrease in deposits with other banks, before provision for impairment		196,210	707,161
Net decrease in loans to financial institutions, before provision for impairment		618,062	931,124
Net (increase) in loans to other customers, before provision for impairment		(758,554)	(370,226)
Net (gain) on financial assets at fair value through profit or loss		(89)	(19)
Net realized (gain) on assets available for sale		(254)	(1,613)
(Increase) of discount in assets available for sale, assets held to maturity and bonds payable		(1,058)	(10,222)
Net (increase) in non-current assets held for sale		(15)	-
Net (increase) in other assets, before provision for impairment		(2,571)	(479)
Net increase in deposits from banks and companies		49,508	602
Net (decrease) in other liabilities, before provisions		(70,709)	(88,751)
Net cash provided by operating activities		82,533	1,217,929
Investment activities			
(Purchase) of financial assets at fair value through profit or loss		(4,570)	(18,072)
Sale of financial assets at fair value through profit or loss		3,821	2,742
Net (purchase) of assets available for sale		(1,460,805)	(1,527,918)
Sale of assets available for sale		863,825	830,637
Net (purchase) of property, plant and equipment and intangible assets		3,821	(807)
Net cash (used in) investment activities		(598,244)	(713,418)
Financing activities			
Increase in founder's capital		-	-
Increase in borrowings – withdrawn funds		1,102,744	353,043
(Decrease) in borrowings – repayments of principal		(453,307)	(369,516)
Net cash provided by/(used in) financing activities		649,437	(16,473)
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		(205,521)	(144,913)
Net effect		(205,521)	(144,913)
Net (decrease)/increase in cash and cash equivalents		(71,795)	343,125
Balance as of 1 January, before provisions		486,743	129,462
Net (decrease)/increase in cash		(71,795)	343,125
Balance as of 30 June, before provisions	8	414,948	472,587
Additional note - Operational cash flows			
Interest paid		311,376	312,235
Interest received		356,307	303,575

The accompanying selected notes are an integral part of these Interim Condensed Financial Statements.

Consolidated Interim Condensed Financial Statements of the Group
Statement of Changes in Equity
for the period 1 January – 30 June
(All amounts are expressed in HRK thousand)

	Founder's capital	Retained earnings and reserves	Other reserves	Net profit for the year	Total equity
Balance as of 1 January 2015	6,893,739	2,306,634	48,877	169,228	9,418,478
Profit for the year	-	-	-	64,490	64,490
Other comprehensive income	-	-	(4,588)	-	(4,588)
Total comprehensive income	-	-	(4,588)	64,490	59,902
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2014 to retained earnings	-	169,228	-	(169,228)	-
Balance as of 30 June 2015	6,893,739	2,475,862	44,289	64,490	9,478,380
Balance as of 1 January 2016	6,926,632	2,475,862	43,283	206,265	9,652,042
Profit for the year	-	-	-	107,678	107,678
Other comprehensive income	-	-	14,272	-	14,272
Total comprehensive income	-	-	14,272	107,678	121,950
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2015 to retained earnings	-	206,265	-	(206,265)	-
Balance as of 30 June 2016	6,926,632	2,682,127	57,555	107,678	9,773,992

The accompanying selected notes are an integral part of these Interim Condensed Financial Statements.

Unconsolidated Interim Condensed Financial Statements of the Bank
Statement of Profit or Loss
for the period 1 January – 30 June
(All amounts are expressed in HRK thousand)

	Notes	2016		2015	
		Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Interest income	4	209,556	428,189	211,402	432,065
Interest expense	5	(113,681)	(228,236)	(119,890)	(240,513)
Net interest income		95,875	199,953	91,512	191,552
Fee income		8,443	14,020	4,468	8,102
Fee expense		(678)	(1,419)	(215)	(313)
Net fee income		7,765	12,601	4,253	7,789
Net gains/(losses) on financial operations		3,226	(10,816)	8,765	8,914
Other income		1,514	3,547	1,073	2,494
		108,380	205,285	105,603	210,749
Operating expenses	6	(37,507)	(77,050)	(31,366)	(63,424)
Impairment loss and provisions	7	(16,550)	(21,000)	(50,369)	(83,372)
Profit before income tax		54,323	107,235	23,868	63,953
Income tax		-	-	-	-
Profit for the year		54,323	107,235	23,868	63,953
Attributable to:					
Equity holders of the parent		54,323	107,235	23,868	63,953

The accompanying selected notes are an integral part of these Interim Condensed Financial Statements.

Unconsolidated Interim Condensed Financial Statements of the Bank
Statement of Profit or Loss and Other Comprehensive Income
for the period 1 January – 30 June
(All amounts are expressed in HRK thousand)

	2016		2015	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Profit for the year	54,323	107,235	23,868	63,953
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Increase in fair value of assets available for sale	13,615	31,114	6,304	19,680
Decrease in fair value of assets available for sale	(13,573)	(16,793)	(19,468)	(22,534)
Net foreign exchange on available for sale equity instruments	(31)	(387)	(196)	(248)
Transfer of realized gains on assets available for sale to statement of profit or loss	(36)	(90)	(1,467)	(1,467)
Total items that may be reclassified subsequently to profit or loss	(25)	13,844	(14,827)	(4,569)
Other comprehensive income after tax	(25)	13,844	(14,827)	(4,569)
Total comprehensive income after tax	54,298	121,079	9,041	59,384
Attributable to:				
Equity holders of the parent	54,298	121,079	9,041	59,384

The accompanying selected notes are an integral part of these Interim Condensed Financial Statements.

Unconsolidated Interim Condensed Financial Statements of the Bank
Statement of Financial Position as of
(All amounts are expressed in HRK thousand)

	Notes	Jun 30, 2016	Dec 31, 2015
Assets			
Cash on hand and due from banks	8	411,495	482,708
Deposits with other banks		164,022	356,351
Loans to financial institutions	9	11,933,124	12,522,652
Loans to other customers	10	9,934,266	9,223,069
Assets available for sale	11	3,430,623	2,832,323
Investments in subsidiaries		36,124	36,124
Investments in associates		-	-
Property, plant and equipment and intangible assets		58,699	62,083
Non-current assets held for sale		21,782	21,715
Other assets		5,415	3,751
Total assets		25,995,550	25,540,776
Liabilities			
Deposits		286,144	236,636
Borrowings	12	11,946,653	11,478,087
Bonds payable	13	3,239,142	3,366,566
Other liabilities		740,286	797,040
Total liabilities		16,212,225	15,878,329
Equity			
Founder's capital		6,926,632	6,926,632
Retained earnings and reserves		2,682,131	2,476,903
Other reserves		55,026	41,182
Profit for the year		107,235	205,228
Capital		9,771,024	9,649,945
Guarantee fund		12,301	12,502
Total equity		9,783,325	9,662,447
Total liabilities and total equity		25,995,550	25,540,776

The accompanying selected notes are an integral part of these Interim Condensed Financial Statements.

Unconsolidated Interim Condensed Financial Statements of the Bank
Statement of Cash Flows
for the period 1 January – 30 June
(All amounts are expressed in HRK thousand)

	Notes	2016	2015
Operating activities			
Profit before income tax		107,235	63,953
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation		3,923	3,919
Impairment loss and provisions		21,000	83,372
Accrued interest		(78,128)	(99,342)
Deferred fees		(2,585)	(2,324)
<i>Operating profit before working capital changes</i>		51,445	49,578
<i>Changes in operating assets and liabilities:</i>			
Net decrease in deposits with other banks, before provision for impairment		194,210	695,189
Net decrease in loans to financial institutions, before provision for impairment		618,062	931,124
Net (increase) in loans to other customers, before provision for impairment		(758,554)	(370,226)
Net realized (gain) on assets available for sale		(90)	(1,467)
(Increase) of discount in assets available for sale and bonds payable		(1,260)	(10,292)
Net (increase) in non-current assets held for sale		(15)	-
Net (increase) in other assets, before provision for impairment		(2,308)	(646)
Net increase in deposits from banks and companies		49,508	602
Net (decrease) in other liabilities, before provisions		(70,207)	(90,449)
Net cash provided by operating activities		80,791	1,203,413
Investment activities			
Net (purchase) of assets available for sale		(1,458,008)	(1,526,794)
Sale of assets available for sale		862,067	828,416
Net (purchase) of property, plant and equipment and intangible assets		(539)	(807)
Net cash (used in) investment activities		(596,480)	(699,185)
Financing activities			
Increase in founder's capital		-	-
Increase in borrowings – withdrawn funds		1,102,744	353,043
(Decrease) in borrowings – repayments of principal		(453,307)	(369,516)
Net cash provided by/(used in) financing activities		649,437	(16,473)
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		(205,753)	(145,043)
Net effect		(205,753)	(145,043)
Net (decrease)/increase in cash and cash equivalents		(72,005)	342,712
Balance as of 1 January, before provisions		486,501	129,329
Net (decrease)/increase in cash		(72,005)	342,712
Balance as of 30 June, before provisions	8	414,496	472,041
Additional note - Operational cash flows			
Interest paid		311,376	312,235
Interest received		355,235	302,697

The accompanying selected notes are an integral part of these Interim Condensed Financial Statements.

Unconsolidated Interim Condensed Financial Statements of the Bank
Statement of Changes in Equity
for the period 1 January – 30 June
(All amounts are expressed in HRK thousand)

	Founder's capital	Retained earnings and reserves	Other reserves	Net profit for the year	Total equity
Balance as of 1 January 2015	6,893,739	2,308,560	46,943	168,343	9,417,585
Profit for the year	-	-	-	63,953	63,953
Other comprehensive income	-	-	(4,569)	-	(4,569)
Total comprehensive income	-	-	(4,569)	63,953	59,384
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2014 to retained earnings	-	168,343	-	(168,343)	-
Balance as of 30 June 2015	6,893,739	2,476,903	42,374	63,953	9,476,969
Balance as of 1 January 2016	6,926,632	2,476,903	41,182	205,228	9,649,945
Profit for the year	-	-	-	107,235	107,235
Other comprehensive income	-	-	13,844	-	13,844
Total comprehensive income	-	-	13,844	107,235	121,079
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2015 to retained earnings	-	205,228	-	(205,228)	-
Balance as of 30 June 2016	6,926,632	2,682,131	55,026	107,235	9,771,024

The accompanying selected notes are an integral part of these Interim Condensed Financial Statements.

Notes to the Consolidated Interim Condensed Financial Statements include
significant accounting policies and other explanations
for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

1. General information

1.1. Group:

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

The legal address of the Bank is 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.

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

As of 30 June 2016, the Group had 358 employees (30 June 2015: 338 employees).

1.2. Bank:

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

The Republic of Croatia guarantees HBOR's liabilities unconditionally, irrevocably and on first call, without issuing any particular guarantee.

The responsibility of the Republic of Croatia as guarantor for HBOR's liabilities is joint and unlimited.

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

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

1. General information (continued)

1.2. Bank (continued):

Supervisory Board and Managing Board

In the official gazette „Narodne novine“ No. 24/2016 dated 18 March 2016, the Decision on the Appointment of the President, acting President and several members of the Supervisory Board of Croatian Bank for Reconstruction and Development was published. On the date of preparing these statements, members of the Supervisory Board of HBOR were as follows:

- Zdravko Marić, DSc, Minister of Finance - ex officio President of the Supervisory Board,
- Tomislav Panenić, Minister of Economy – ex officio Vice President of the Supervisory Board,
- Tomislav Tolušić, Minister of Regional Development and EU Funds, ex officio Member of the Supervisory Board,
- Anton Kliman, Minister of Tourism,
- Davor Romić, Prof. DSc, Minister of Agriculture,
- Darko Horvat, Minister of Entrepreneurship and Crafts.

Until the end of the reporting period, the Croatian Parliament has not yet appointed three members of the Supervisory Board and their permanent deputies among the members of the Croatian Parliament.

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

Dušan Tomašević, President of the Managing Board,
Martina Jus, Member of the Managing Board,
Goran Filipić, Member of the Managing Board.

As of 30 June 2016, there were 345 employees at the Bank (30 June 2015: 323 employees).

Audit Committee

The term of office of the members of the Audit Committee lasts as long as the term of office of the members of the Supervisory Board that has appointed them. On 18 March 2016, the term of office of the Audit Committee members expired, and new members of the Audit Committee were not appointed by the date of these financial statements. The role of the Audit Committee is currently carried out by the Supervisory Board.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

2. General information (continued)

1.2. Bank (continued):

1.2.1. Activities of the Bank:

The principal activities of the Bank comprise the following:

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

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

3. Basis of Preparation of the Interim Condensed Financial Statements

The Consolidated Interim Condensed Financial Statements of the HBOR Group for the period 1 January to 30 June 2016 have been prepared in accordance with the International Accounting Standard 34 Interim Financial Reporting.

The Consolidated Interim Condensed Financial Standards for the period 1 January to 30 June 2016 do not include all the information and disclosures required in annual consolidated financial statements. Therefore, they have to be read in conjunction with the Annual Consolidated Financial Statements of the HBOR Group for the year ended 31 December 2015.

The Interim Condensed Financial Statements of the HBOR Group and HBOR are prepared on the going concern basis.

The Financial Statements of the HBOR Group and HBOR are comprised of consolidated and unconsolidated Statement of Financial Position as of 30 June 2016, the Statement of Profit or Loss for the period 1 January – 30 June 2016, the Statement of Profit or Loss and other Comprehensive Income for the period 1 January – 30 June 2016, the Statement of Cash Flows for the period 1 January – 30 June 2016, the Statement of Changes in Equity for the period 1 January – 30 June 2016, and the accompanying Notes on significant accounting policies and other explanations.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

3. Summary of significant accounting policies

3.1. Accounting policies

Principal accounting policies applied when preparing these Interim Condensed Financial Statements are consistent with those followed in the preparation of the Annual Financial Statements as of 31 December 2015 that were disclosed on the web address: <http://www.hbor.hr>.

3.2. Adoption of new and amended International Financial Reporting Standards:

The following new and amended IFRSs have been applied in the current period and have affected presentation and disclosures in these financial statements.

a) New and amended International Financial Reporting Standards effective in the reporting period and adopted in the European Union with the assessment of impact on the financial statements:

- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (effective for periods beginning on or after 1 January 2016, adopted in the European Union on 23 November 2015) – Agriculture: Bearer Plants, amending the existing standard pertaining to the bearer biological assets. These amendments do not affect the Group after the initial application.
- Amendments to IFRS 11 Joint Arrangements (effective for periods beginning on or after 1 January 2016, adopted in the European Union on 24 November 2015) amending the provisions of the existing Standard and clarifying accounting for acquisitions of interests in joint operations. These amendments do not affect the Group after the initial application.
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (effective for periods beginning on or after 1 January 2016, adopted in the European Union on 2 December 2015) amending the existing Standard and clarifying acceptable methods of depreciation and amortization of long-term tangible and intangible assets. The Amendments aim to clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. These amendments do not affect the Group after the initial application.
- Annual Improvements 2012-2014 (effective for periods beginning on or after 1 January 2016, adopted in the European Union on 15 December 2015) – primary with a view to removing inconsistencies and clarifying wording pertaining to:
 - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal,

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

3. Summary of significant accounting policies (continued)

3.2. Adoption of new and amended International Financial Reporting Standards (continued):

a) New and amended International Financial Reporting Standards effective in the reporting period and adopted in the European Union with the assessment of impact on the financial statements (continued):

- Annual Improvements 2012-2014 (continued):

- IFRS 7 Financial Instruments: Disclosures

- Servicing contracts – additional guidance pertaining to the application of paragraph 42C of IFRS 7 relating to servicing contracts,
 - Applicability of the amendments to IFRS 7 to condensed interim financial statements – no disclosures are required in condensed interim financial statements pertaining to the offsetting of financial assets and financial liabilities until required by IAS 34 Interim Financial Reporting.

- IAS 19 Employee Benefits – Discount rate: regional market issue – high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid,
 - IAS 34 Interim Financial Reporting – Disclosure of information “elsewhere in the interim financial report” – clarifies the meaning of the term and its application.

These amendments do not affect the Group after the initial application.

- Amendments to IAS 1 Presentation of Financial Statements (effective for periods beginning on or after 1 January 2016, adopted in the European Union on 18 December 2015) – under the Disclosure Initiative. The amendments are design to serve as further incentive to companies by encouraging them to apply professional judgement in determining information to disclose in their financial statements and to clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

These amendments have been applied to the financial statements of the Group.

- Amendments to IAS 27 Separate Financial Statements (effective for periods beginning on or after 1 January 2016, adopted in the European Union on 18 December 2015) allow the use of the equity method in separate financial statements to account for investments in subsidiaries, joint ventures and associates.

The parent has aligned its accounting policies with the stated changes and amendments to IAS 27 that have been applied from 1 January 2016 onwards. Taking into account the Group’s existing organisation and business model, these amendment does not affect the financial statements of the Group.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

3. Summary of significant accounting policies (continued)

3.2. Adoption of new and amended International Financial Reporting Standards (continued):

b) New and amended International Financial Reporting Standards that become effective in the reporting period, and that have not been adopted in the European Union yet:

- New IFRS 14 Regulatory Deferral Accounts – transitional standard (effective for periods beginning on or after 1 January 2016, but has not been adopted in the European Union yet) that refers to first-time adopters of IFRS currently recognising the deferral accounts in accordance with its previous generally accepted accounting principles, to enable them to continue so when they adopt IFRS. The disclosures are also prescribed identifying the nature of, and risk associated with, the rate regulation.

The new IFRS does not affect the Group after the initial application.

- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures (effective for periods beginning on or after 1 January 2016 but have not been adopted in the European Union yet) - Investment Entities – provide an exemption from the consolidation with an objective of clarifying the requirements when accounting for investment entities and provide relief in particular circumstances.

The above amendments do not affect the Group after the initial application.

c) New and amended International Financial Reporting Standards that become effective after the reporting period, and that have not been adopted in the European Union yet:

- IFRS 9 Financial Instruments - in July 2014, the final wording of the new IFRS 9 Financial Instruments (effective for periods beginning on or after 1 January 2018, but has not been adopted in the European Union yet), that shall from the date of its effectiveness completely replace IAS 39 Financial Instruments: Recognition and Measurement, and contains requirements relating to the recognition and measurement, impairment, derecognition and hedge accounting in general.

Classification and measurement of financial assets and financial liabilities – all recognised financial assets that is currently within the scope of IAS 39, shall from the date of application of IFRS 9 be measured either at amortised cost or at fair value.

Impairment – IFRS 9 introduces a new expected loss impairment model according to which the occurrence of a credit loss is no longer necessary to recognise impairment. The entities recognise the annual expected credit loss or the expected credit loss throughout the lifetime of a financial instrument, depending on whether the credit risk has increased significantly since initial recognition. Any measurement of expected credit losses shall reflect the probability of outcome, incorporate the time value of money and be based on reasonable and supportable information.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

3. Summary of significant accounting policies (continued)

3.2. Adoption of new and amended International Financial Reporting Standards (continued):

c) New and amended International Financial Reporting Standards that become effective after the reporting period, and that have not been adopted in the European Union yet (continued):

- **IFRS 9 Financial Instruments (continued)**

Hedge accounting – IFRS 9 introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity. The new model represents a substantial overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

The Group shall not apply IFRS 9 in the period before its obligatory application. In the period until its application, the Group shall assess and quantify possible effects.

- **New IFRS 15 Revenue from Contracts with Customers (effective for periods beginning on or after 1 January 2018 but has not been adopted in the European Union yet)** establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. After its effective date, it will supersede the following standards and interpretations: IAS 18 Revenues; IAS 11 Construction Contracts; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is for companies to recognise revenues to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The standard establishes a five-step model framework that will be applied to revenues generated from contracts with customers irrespective of the type of transaction or activity as follows: identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognise revenues when (or as) the entity satisfies a performance obligation. However, the standard does not apply to financial instruments and other contractual rights or obligations within the scope of IAS 39 Financial Instruments: Recognition and Measurement, i.e. IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures, insurance contracts within the scope of IFRS 4 Insurance Contracts, and consequently it will not affect the Group after the initial application.

- **Amended IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (application deferred for an indefinite period)** dealing with the sale or contribution of assets between an investor and its associate or joint venture in the way that, in a transaction involving an associate or a joint venture, the extend of gain or loss recognition depends on whether the assets sold or contributed constitute a business.

The Group shall apply the above amendments if such a transaction arises in the period after the start of the standard application.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

3. Summary of significant accounting policies (continued)

3.2. Adoption of new and amended International Financial Reporting Standards (continued):

c) New and amended International Financial Reporting Standards that become effective after the reporting period, and that have not been adopted in the European Union yet (continued):

- New IFRS 16 Leases (effective for periods beginning on or after 1 January 2019 but have not been adopted in the European Union yet) – sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier "lessor"). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions.

The above new IFRS will not affect the significantly Group after the initial application.

- Amended IAS 12 Income Taxes (effective for periods beginning on or after 1 January 2017, but has not been adopted in the European Union yet) – Recognition of Deferred Tax Assets for Unrealised Losses. IASB has concluded that the diversity in practice around the recognition of a deferred tax asset that is related to a debt instrument measured at fair value is mainly attributable to uncertainty about the application of some of the principles in IAS 12. Therefore the amendments consist of some clarifications and an illustrating example.

This amendment will not affect the Group after the initial application.

- Amended IAS 7 Statement of Cash Flows (effective for periods beginning on or after 1 January 2017, but has not been adopted in the European Union yet) – Disclosure Initiative. The amendments come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.

This amendment will not affect the Group after the initial application.

- Changes and amendments to IFRS 15 Revenue from Contracts with Customers (effective for periods beginning on or after 1 January 2018, but have not been adopted in the European Union yet) – Clarifications to IFRS 15 issued.

The amendments do not change the underlying principles of the standard, just clarify and offer some additional transition relief.

The standard 15 does not apply to financial instruments and other contractual rights or obligations within the scope of IAS 39 Financial Instruments: Recognition and Measurement, i.e. IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures, insurance contracts within the scope of IFRS 4 Insurance Contracts, and consequently it will not affect the Group after the initial application.

- Changes and amendments to IFRS 2 Share-Based Payment (effective for periods beginning on or after 1 January 2018, but have not been adopted in the European Union yet) – issued clarifications of IFRS 2 regarding the classification and measurement of share-based payment transactions.

This amendment will not affect the Group after the initial application.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

4. Interest income

Interest income by borrowers:

	Group				Bank			
	2016		2015		2016		2015	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Public sector	28,050	60,918	18,365	35,442	27,648	60,132	18,146	35,005
State-owned companies	10,053	18,638	9,028	17,048	10,053	18,638	9,028	17,048
Foreign companies	3,271	6,394	615	1,184	3,271	6,394	615	1,184
Domestic companies	81,370	162,108	88,905	183,342	81,370	162,108	88,899	183,330
Domestic financial institutions	70,720	145,547	77,406	158,118	70,696	145,496	77,306	157,905
Foreign financial institutions	42	63	283	537	42	63	283	537
Penalty interest	3,173	6,340	2,245	4,459	3,173	6,340	2,245	4,459
Other	13,303	29,018	14,880	32,597	13,303	29,018	14,880	32,597
	209,982	429,026	211,727	432,727	209,556	428,189	211,402	432,065

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

4. Interest income (continued)

Interest income by type of facility:

	Group				Bank			
	2016		2015		2016		2015	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Interest on loans								
- financial institutions	70,701	145,692	77,466	158,288	70,701	145,692	77,466	158,288
- other customers	126,874	258,605	121,572	249,992	126,874	258,605	121,572	249,992
	197,575	404,297	199,038	408,280	197,575	404,297	199,038	408,280
Investments in securities	12,332	24,579	12,315	23,702	11,930	23,793	12,083	23,238
Deposits	75	150	374	745	51	99	281	547
	209,982	429,026	211,727	432,727	209,556	428,189	211,402	432,065

The difference between interest income and interest received or collected (see Statement of Cash Flows) mostly relates to the income in respect to interest subsidies inflows that are recorded upon payment. The discounted amount of the interest subsidies provided for the final user is presented as deferred interest income and is recognized in the statement of profit or loss and other comprehensive income on a time basis during the repayment of the loan. Interest income earned on this basis for the period 1 January to 30 June 2016 amounts to HRK 67,637 thousand (1 January to 30 June 2015: HRK 85,607 thousand).

Further, the difference between interest income and interest collected relates to the amount of loan fees and accrued interest. Loan fees are collected after origination of the loan, but their recognition in the statement of profit or loss and other comprehensive income is performed using effective interest rate method. Accrued interest is recognized in the statement of profit or loss and other comprehensive income on a time basis.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

5. Interest expense

Interest expense by type of payee:

	Group				Bank			
	2016		2015		2016		2015	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Domestic financial institutions	2,663	5,323	2,655	5,278	2,663	5,323	2,655	5,278
Foreign financial institutions	111,018	222,913	117,235	235,235	111,018	222,913	117,235	235,235
	113,681	228,236	119,890	240,513	113,681	228,236	119,890	240,513

Interest expense by type of facility:

	Group				Bank			
	2016		2015		2016		2015	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Borrowings	69,739	139,790	72,731	146,107	69,739	139,790	72,731	146,107
Debt securities	43,942	88,446	47,159	94,406	43,942	88,446	47,159	94,406
	113,681	228,236	119,890	240,513	113,681	228,236	119,890	240,513

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

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

6. Operating expenses

Operating expenses can be shown as follows:

	Group				Bank			
	2016		2015		2016		2015	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
General and administrative expenses:								
Employee expenses	22,317	43,697	20,684	40,598	21,521	42,057	19,943	39,191
Depreciation	1,930	3,958	1,329	4,013	1,917	3,923	1,282	3,919
Administration expenses	3,450	5,890	2,799	5,312	3,392	5,761	2,748	5,224
Material and services	7,398	13,246	7,450	13,193	6,943	12,430	6,973	12,356
	35,095	66,791	32,262	63,116	33,773	64,171	30,946	60,690
Other expenses:								
Taxes and contributions	195	340	136	273	195	339	135	271
Other expenses	4,806	14,768	1,160	4,108	3,539	12,540	285	2,463
	5,001	15,108	1,296	4,381	3,734	12,879	420	2,734
	40,096	81,899	33,558	67,497	37,507	77,050	31,366	63,424

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

6. Operating expenses (continued)

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

	Group				Bank			
	2016		2015		2016		2015	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Changes in claims provisions	(731)	537	213	741	-	-	-	-
Changes in claims provisions, reinsurer's share	10	(594)	8	(136)	-	-	-	-
Expenses of insurance operations	(721)	(57)	221	605	-	-	-	-

The major portion of claims provisions relates to provisions for incurred but not reported losses, where the method of calculation has changed in relation to the same period previous year. The used method is the expected loss quota method both for the gross amount and for the reinsurance share. The payment of a large loss was taken into account that was not reinsured, due to which net provisions for losses increased in relation to the same period previous year.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

7. Impairment loss and provisions:

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

	Group				Bank			
	2016		2015		2016		2015	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Impairment losses on cash on hand and due from banks	(3,722)	(792)	2,129	3,802	(3,722)	(792)	2,129	3,802
Impairment losses on deposits with other banks	100	(2,042)	(3,865)	(7,101)	100	(2,042)	(3,865)	(7,101)
Impairment losses on loans to financial institutions	(15,622)	(28,635)	10,363	(10,512)	(15,622)	(28,635)	10,363	(10,512)
Impairment losses on loans to other customers and interest	21,538	38,424	42,979	106,909	21,538	38,424	42,979	106,909
Impairment losses on non-current assets held for sale	(40)	(52)	(26)	(38)	(40)	(52)	(26)	(38)
Impairment losses on assets available	(3,815)	-	273	287	(3,815)	-	273	287
Impairment losses on other assets	390	641	(33)	49	417	644	(34)	72
Total increase in provision for impairment losses on assets	(1,171)	7,544	51,820	93,396	(1,144)	7,547	51,819	93,419
Provision for guarantees and	1,800	(2,863)	948	4,142	1,800	(2,863)	948	4,142
Other provisions	15,863	16,277	(2,398)	(14,189)	15,894	16,316	(2,398)	(14,189)
Total increase/(decrease) in provision for guarantees and commitments and other provisions	17,663	13,414	(1,450)	(10,047)	17,694	13,453	(1,450)	(10,047)
Total increase of provisions	16,492	20,958	50,370	83,349	16,550	21,000	50,369	83,372

Notes to the Consolidated Interim Condensed Financial Statements include
significant accounting policies and other explanations
for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

7. Impairment loss and provisions (continued):

The Bank regularly monitors its loans and receivables to assess impairment. The Bank uses its experience of judgements to estimate the amount of any impairment loss in cases when a borrower is in financial difficulties and there are several available sources of historical data relating to similar borrowers.

Similarly, the Bank estimates changes in future cash flows using the data indicating an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

The management uses estimates based on the historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experience and judgment to adjust available data for a group of loans or receivables according to current market conditions.

The largest provisions in the reporting period relate to provisions for placements to borrowers undergoing bankruptcy proceedings and/or pre-bankruptcy settlement proceedings, placements with recorded days of delayed settlement of obligations and under restructured placements.

In the reporting period, the Bank generated net impairment loss in the amount of HRK 21,000 thousand and is considerably lower compared with the same period of the previous year due to a higher number of debtors undergoing bankruptcy proceedings in the first half of the previous year, which led to higher provisions, as well as due to a higher number of pre-bankruptcy settlement proceedings.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

8. Cash on hand and due from banks

	Group		Bank	
	Jun 30, 2016	Dec 31, 2015	Jun 30, 2016	Dec 31, 2015
Account with the Croatian National Bank	114,656	107,353	114,656	107,353
Due from domestic banks in foreign currency	1,285	900	1,285	900
Due from foreign banks in foreign currency	298,555	378,248	298,555	378,248
Due from domestic banks in HRK	452	242	-	-
	414,948	486,743	414,496	486,501
Provisions for impairment losses	(3,001)	(3,793)	(3,001)	(3,793)
	411,947	482,950	411,495	482,708

Due from foreign banks in foreign currency represents the amount drawn from a loan tranche approved by the International Bank for Reconstruction and Development (IBRD) under the credit line „Croatia Export Finance Intermediation Loan Project“ and amounts to EUR 11,005 thousand (31 December 2015: EUR 8,759 thousand).

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

9. Loans to financial institutions

	Group		Bank	
	Jun 30, 2016	Dec 31, 2015	Jun 30, 2016	Dec 31, 2015
Loans due within one year	3,038,856	3,596,750	3,038,856	3,596,750
Loans due in over one year	9,387,644	9,450,338	9,387,644	9,450,338
Accrued interest	13,933	14,043	13,933	14,043
Deferred recognition of loan origination fees	(66,525)	(66,533)	(66,525)	(66,533)
	12,373,908	12,994,598	12,373,908	12,994,598
Provisions for impairment losses	(440,784)	(471,946)	(440,784)	(471,946)
	11,933,124	12,522,652	11,933,124	12,522,652

Loans to financial institutions by purpose of the loan programmes:

	Group		Bank	
	Jun 30, 2016	Dec 31, 2015	Jun 30, 2016	Dec 31, 2015
Loan programme for reconstruction and development of the economy	2,910,999	3,244,064	2,910,999	3,244,064
Export financing	3,681,778	3,612,334	3,681,778	3,612,334
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	1,557,969	1,681,125	1,557,969	1,681,125
Loan programme for small and medium-sized enterprises	3,830,648	3,526,036	3,830,648	3,526,036
Loan programme for war-torn and demolished housing and business facilities	10,649	11,599	10,649	11,599
Other	434,457	971,930	434,457	971,930
Accrued interest	13,933	14,043	13,933	14,043
Deferred recognition of loan fees	(66,525)	(66,533)	(66,525)	(66,533)
	12,373,908	12,994,598	12,373,908	12,994,598
Provisions for impairment losses	(440,784)	(471,946)	(440,784)	(471,946)
	11,933,124	12,522,652	11,933,124	12,522,652

Average interest rates for total loans to financial institutions, at year level, are stated at 1.13% (1 January to 30 June 2015: 1.24%) and for loans under HBOR loan programmes excluding the liquidity reserve at 1.13% (1 January to 30 June 2015: 1.23%).

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

Item „Other“ refers to reverse REPO agreements in the total amount of HRK 329,457 thousand (31 December 2015: HRK 606,930 thousand). The above placements are collateralised by securities in the amount of HRK 349,169 thousand (31 December 2015: HRK 645,673 thousand).

In the reporting period, provisions for loans to financial institutions in the amount of HRK 12,805 thousand were charged and provisions in the amount of HRK 41,440 thousand were reversed.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

10. Loans to other customers

	Group		Bank	
	Jun 30, 2016	Dec 31, 2015	Jun 30, 2016	Dec 31, 2015
Domestic companies	9,161,992	8,721,759	9,161,992	8,721,759
State-owned companies	964,689	1,353,314	964,689	1,353,314
Public sector	1,391,612	678,730	1,391,612	678,730
Foreign companies	245,624	232,742	245,624	232,742
Non-profit institutions	1,712	5,972	1,712	5,972
Other	741,581	768,720	741,581	768,720
Accrued interest	66,033	69,086	66,033	69,086
Deferred recognition of loan origination fees	(107,978)	(102,098)	(107,978)	(102,098)
	12,465,265	11,728,225	12,465,265	11,728,225
Provisions for impairment losses	(2,530,999)	(2,505,156)	(2,530,999)	(2,505,156)
	9,934,266	9,223,069	9,934,266	9,223,069

Loans to other customers by loan programmes:

	Group		Bank	
	Jun 30, 2016	Dec 31, 2015	Jun 30, 2016	Dec 31, 2015
Loan programme for reconstruction and development of the economy	3,663,559	3,807,190	3,663,559	3,807,190
Export financing	3,714,028	3,254,161	3,714,028	3,254,161
Loan programme for reconstruction and development of infrastructure in the	2,842,753	2,513,074	2,842,753	2,513,074
Loan programme for small and medium-sized enterprises	2,191,715	2,115,820	2,191,715	2,115,820
Other	95,155	70,992	95,155	70,992
Accrued interest	66,033	69,086	66,033	69,086
Deferred recognition of loan origination fees	(107,978)	(102,098)	(107,978)	(102,098)
	12,465,265	11,728,225	12,465,265	11,728,225
Provisions for impairment losses	(2,530,999)	(2,505,156)	(2,530,999)	(2,505,156)
	9,934,266	9,223,069	9,934,266	9,223,069

Average interest rates for total loans to other customers, at year level, are stated at 2.01% (1 January to 30 June 2015: 1.95%).

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

In the reporting period, provisions for loans to other customers in the amount of HRK 109.345 thousand were charged and provisions in the amount of HRK 70.822 thousand were reversed.

Impairment of loans to other customers was reduced by the amount of HRK 253 thousand relating to taking over of the real estate in the enforcement procedure. The amount of HRK 657 thousand relates to write-off of interest due to purchase of HBOR's receivables whereas the amount of HRK 10 thousand relates to write-off of debt due to a debtor's death.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

11. Assets available for sale

	Group		Bank	
	Jun 30, 2016	Dec 31, 2015	Jun 30, 2016	Dec 31, 2015
Debt instruments:				
Listed debt instruments:				
Bonds of the Ministry of Finance of the Republic of Croatia	859,715	679,617	823,268	644,532
Financial institution bonds	915	930	-	-
Corporate bonds	1,170	396	-	-
Treasury bills of the Ministry of Finance of the Republic of Croatia	1,544,542	1,418,963	1,544,542	1,418,963
Accrued interest	16,246	14,441	15,662	13,862
	2,422,588	2,114,347	2,383,472	2,077,357
Unlisted debt instruments:				
Corporate bonds	487	2,320	487	1,551
Accrued interest	64	31	64	30
	551	2,351	551	1,581
Equity instruments:				
Listed equity instruments:				
Investments in company's shares	8,203	-	8,203	-
	8,203	-	8,203	-
Unlisted equity instruments:				
Investments in shares of foreign legal entities	27	26	27	26
Investments in financial institutions shares	161	161	161	161
Shares of foreign financial institutions – EIF	25,661	24,420	25,661	24,420
Investments in company's shares	16,725	23,834	16,725	23,834
Provision for impairment losses	(16,725)	(23,834)	(16,725)	(23,834)
	25,849	24,607	25,849	24,607
Investments in investment funds:				
Shares classified as assets available for sale	1,012,798	729,010	1,012,548	728,778
	1,012,798	729,010	1,012,548	728,778
Balance	3,469,989	2,870,315	3,430,623	2,832,323

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

11. Assets available for sale (continued)

The following text contains investment breakdown:

	Date of issue	Date of maturity	Interest rate (%)	Jun 30, 2016	Group Dec 31, 2015	Jun 30, 2016	Bank Dec 31, 2015
Debt instruments:							
Listed debt instruments:							
Bonds of the Republic of Croatia indexed to foreign currency:							
RHMF-O-19BA	29.11.2004.	29.11.2019.	5.375	48,903	51,273	47,222	47,883
RHMF-O-227E	22.7.2011.	22.7.2022.	6.5	166,734	169,365	166,734	169,365
RHMF-O-247E	10.7.2013.	10.7.2024.	5.75	17,190	17,238	12,124	12,188
RHMF-O-203E	5.3.2010.	5.3.2020.	6.5	874	884	-	-
Bonds of the Republic of Croatia in foreign currency:							
XS0645940288	8.7.2011.	9.7.2018.	5.875	57,333	58,159	57,333	58,159
XS0776179656	27.4.2012.	27.4.2017.	6.25	14,004	14,476	14,004	14,476
XS1117298916	11.3.2015.	11.3.2025.	3.0	50,041	48,455	50,041	48,455
Bonds of the Republic of Croatia in HRK:							
RHMF-O-167A	22.7.2011.	22.7.2016.	5.75	145,768	139,066	145,768	139,066
RHMF-O-172A	8.2.2007.	8.2.2017.	4.75	102,572	103,396	101,979	102,800
RHMF-O-187A	10.7.2013.	10.7.2018.	5.25	42,632	42,712	37,296	37,415
RHMF-O-17BA	25.11.2010.	25.11.2017.	6.25	164,590	4,839	159,789	-
RHMF-O-203A	5.3.2010.	5.3.2020.	6.75	3,014	2,974	-	-
RHMF-O-257A	9.7.2015.	9.7.2025.	4.5	8,977	8,755	-	-
RHMF-O-26CA	14.12.2015.	14.12.2026.	4.25	37,083	18,025	30,978	14,725
Financial institution bonds in HRK:							
RIBA-O-17BA	23.11.2012.	23.11.2017.	5.88	525	525	-	-
Financial institution bonds indexed to foreign currency:							
RIBA-O-177A	18.7.2011.	18.7.2017.	6.5	390	405	-	-
Corporate bonds in HRK:							
JDGL-O-20CA	21.12.2015.	21.12.2020.	5.81	782	-	-	-
Corporate bonds indexed to foreign currency:							
JRLN-O-17AA	24.10.2012.	24.10.2017.	6.5	388	396	-	-
Treasury bills in HRK up to 364 days							
			0.94 – 1.50	1,281,591	963,968	1,281,591	963,968
Treasury bills in foreign currency up to 364 days							
			-	-	190,612	-	190,612
Treasury bills in foreign currency up to 546 days							
			1.95	262,951	264,383	262,951	264,383
Accrued interest							
				16,246	14,441	15,662	13,862
				2,422,588	2,114,347	2,383,472	2,077,357

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

11. Assets available for sale (continued)

The following text contains investment breakdown (continued):

				Group		Bank	
	Date of issue	Date of maturity	Interest rate (%)	Jun 30, 2016	Dec 31, 2015	Jun 30, 2016	Dec 31, 2015
Unlisted debt instruments:							
Corporate bonds indexed to foreign currency:							
LNGU-O-31AE	24.7.2015.	15.10.2031.	4.5	487	1,551	487	1,551
Corporate bonds in HRK:							
JDGL-O-20CA	21.12.2015.	21.12.2020.	5.81	-	769	-	-
Accrued interest				64	31	64	30
				551	2,351	551	1,581
Equity instruments:							
Listed equity instruments:							
Investments in company's shares				8,203	-	8,203	-
				8,203	-	8,203	-
Unlisted equity instruments:							
Investments in shares of foreign legal entities				27	26	27	26
Investments in financial institutions shares				161	161	161	161
Shares of foreign financial institutions – EIF				25,661	23,477	25,661	23,477
Investments in company's shares				16,725	23,834	16,725	23,834
Provision for impairment losses				(16,725)	(23,834)	(16,725)	(23,834)
				25,849	24,607	25,849	24,607
Investments in investment funds in the Republic of Croatia				1,012,798	729,010	1,012,548	728,778
Total				3,469,989	2,870,315	3,430,623	2,832,323

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

12. Borrowings

	Group		Bank	
	Jun 30, 2016	Dec 31, 2015	Jun 30, 2016	Dec 31, 2015
Balance as of 1 January	11,453,796	11,572,516	11,453,796	11,572,516
New borrowings	1,102,744	769,062	1,102,744	769,062
Repayments	(453,307)	(848,277)	(453,307)	(848,277)
Net foreign exchange gains/(losses)	(170,139)	(39,505)	(170,139)	(39,505)
	11,933,094	11,453,796	11,933,094	11,453,796
Accrued interest	65,364	67,573	65,364	67,573
Deferred recognition of borrowing origination fees	(51,805)	(43,282)	(51,805)	(43,282)
Balance	11,946,653	11,478,087	11,946,653	11,478,087

The bank is subject to various financial clauses from the Contract. As of 30 June 2016 the Bank was in compliance with all required financial clauses from the Contract.

13. Bonds payable

The book value of bonds includes interest.

Group and Bank	Effective interest rate	Fair value		Fair value	
		Jun 30, 2016	Jun 30, 2016	Dec 31, 2015	Dec 31, 2015
			Net book value		Net book value
Bonds EUR 150 million	4.836	225,558	225,380	235,410	229,023
Bonds EUR 250 million	5.076	1,920,030	1,876,900	1,959,077	1,906,811
Bonds EUR 150 million	6.37	1,257,012	1,112,939	1,263,814	1,129,466
Accrued interest		-	24,443	-	101,852
Deferred recognition of bond payable origination fees		-	(520)	-	(586)
		3,402,600	3,239,142	3,458,301	3,366,566

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

Notes to the Consolidated Interim Condensed Financial Statements include
significant accounting policies and other explanations
for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

14. Guarantees and commitments

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

The balance of total gross contingent liabilities as of 30 June 2016 amounted to HRK 4,273,246 thousand, which is decrease of 5% as compared with the beginning of the year, and is a result of disbursement of approved loans. Overview of guarantees and commitments:

Group and Bank

	Jun 30, 2016	Dec 31, 2015
Guarantees issued in HRK	28,171	4,352
Guarantees issued in foreign currency	1,429,300	1,062,639
Undrawn loans	2,765,443	3,397,517
EIF – subscribed, not called up capital	48,082	48,864
Open letters of credit in foreign currency	1,911	-
Other irrevocable contingent liabilities	339	339
	4,273,246	4,513,711
Provisions for guarantees and commitments	(59,955)	(62,785)
	4,213,291	4,450,926

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 82%, collateralized by the guarantees, deposits and bank guarantees or the liability was taken over by the Republic of Croatia. Letters of credit are entirely covered by deposits.

Commitments upon undrawn loans

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

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

Other irrevocable contingent liabilities

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

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

15. 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.

Exposure and liabilities as of 30 June 2016 and 31 December 2015, and income and expense for the period 1 January to 30 June 2016 and for the period 1 January to 30 June 2015 arising from transactions with related parties, including the Bank's key management personnel, include the following:

a) Related-party transactions

Group	Exposure	Liabilities	Exposure	Liabilities
	Jun 30, 2015	Jun 30, 2015	Dec 31, 2014	Dec 31, 2014
Owner	3,174,882	166,231	2,388,181	183,488
Government funds, executive authorities and agencies	1,072,246	20,400	1,086,167	22,737
State-owned companies	997,843	111	1,513,557	7
Associates	6	-	9	-
Other intra-group transactions	-	-	-	-
Key management personnel	4,110	-	5,749	-
Total	5,249,087	186,742	4,993,663	206,232

Group	Income	Expense	Income	Expense
	Jun 30, 2016	Jun 30, 2016	Jun 30, 2015	Jun 30, 2015
Owner	51,904	5,177	28,174	294
Government funds, executive authorities and agencies	9,776	494	6,225	399
State-owned companies	25,214	7,487	17,129	3,703
Associates	515	-	359	89
Other intra-group transactions	-	37	-	35
Key management personnel	79	-	87	13
Total	87,488	13,195	51,974	4,533

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

15. Related-party transactions (continued)

a) Related-party transactions (continued)

Bank	Exposure	Liabilities	Exposure	Liabilities
	Jun 30, 2016	Jun 30, 2016	Dec 31, 2015	Dec 31, 2015
Owner	3,174,882	166,231	2,388,181	183,488
Government funds, executive authorities and agencies	1,033,688	20,271	1,048,914	22,528
State-owned companies	997,448	109	1,513,155	4
Subsidiary companies	36,124	-	36,124	-
Associates	6	-	9	-
Key management personnel	4,110	-	5,476	-
Total	5,246,258	186,611	4,991,859	206,020

Bank	Income	Expense	Income	Expense
	Jun 30, 2016	Jun 30, 2016	Jun 30, 2015	Jun 30, 2015
Owner	51,904	5,177	28,174	294
Government funds, executive authorities and agencies	8,837	221	5,522	8
State-owned companies	25,205	7,455	17,130	3,671
Subsidiary companies	-	-	-	-
Associates	515	-	359	89
Key management personnel	76	-	82	13
Total	86,537	12,853	51,267	4,075

Exposures include loans to other customers, available-for-sale assets, assets held to maturity, other assets and off-balance sheet exposure relating to guarantees, letters of credit and commitments.

Liabilities include deposits and other liabilities.

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

Expense includes impairment losses and provisions.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

15. Related-party transactions (continued)

b) Collateral received

	Group		Bank	
	Jun 30, 2016	Dec 31, 2015	Jun 30, 2016	Dec 31, 2015
The Republic of Croatia	2,514,093	2,842,985	2,440,350	2,751,832
State agencies	636,350	646,430	636,350	646,430
Total	3,150,443	3,489,415	3,076,700	3,398,262

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

HBOR issues reinsurance policies for and on behalf of the Republic of Croatia, i.e. covers a proportional part (quota reinsurance) of political and commercial risks of export loans and receivables arising from export of goods and services. The reinsurer covers all non-marketable (non-market) risks underwritten by the Insurer or Hrvatsko kreditno osiguranje d.d. in the percentage ranging from 30% to 90% of an insured amount.

c) Salaries of key management personnel

Salaries include compensation paid for regular work, annual vacation, national holidays, paid leave, sick leave, jubilee awards and payments pursuant to contracts. Salaries for the Group in the reporting period amounted to HRK 4,136 thousand (1 January to 30 June 2015: HRK 5,527 thousand), and for the Bank amounted to HRK 3,500 thousand (1 January to 30 June 2015: HRK 4,920 thousand).

In the reporting period, remuneration for the work of the members of the Supervisory Board for the Group amounted to HRK 165 thousand (1 January to 30 June 2015: HRK 60 thousand) and for the Bank amounted to HRK 98 thousand (1 January to 30 June 2015: HRK 60 thousand) and it relates to members of the supervisory boards at associates and subsidiaries who were appointed by HBOR. Further to the Managing Board decision, since September 2014, remunerations for the work of the members of the supervisory board at subsidiary and associates that operate with losses have been suspended. The mentioned Decision has been annulled by the Decision of the Managing Board dated 20th April 2015.

Notes to the Consolidated Interim Condensed Financial Statements include
significant accounting policies and other explanations
for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management

16.1. Introduction

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 identifies, estimates, measures, monitors, masters and controls the risks to which it is or might be exposed in the course of business. The mode, methods and frequency of risk estimations and measurements are prescribed by the internal documents of the Bank. In its daily operations, the Bank manages credit risk, liquidity risk, interest rate risk in the Bank's book, foreign exchange risk, operational risk and outsourcing risk by policies, procedures, methodologies, regulations, limits and controls.

The Bank has a functionally and organizationally separate and independent organizational unit for the control of business risks, which is directly responsible to the Managing Board. This organisational unit is responsible for definition, evaluation or measurement, and monitoring the risks to which the Bank is exposed or might be exposed in the course of its business. It carries out its role by performing analyses, giving suggestions and recommendations for adequate management of exposure to credit and non-credit risks, developing risk management policies, procedures and methodologies, recommending and controlling the accepted exposure limits as well as reporting to the Managing Board and the competent risk management committees.

When assessing or measuring risk, the Bank takes into account historical data, business plans, current and expected market conditions and the specific characteristics of the Bank as a special financial institution. The results of risk assessments or measurements and analyses carried out are presented to the risk management committees, the Managing Board and the Supervisory Board. For the purpose of managing, monitoring and control of credit risk, liquidity risk, interest rate risk in the Bank's book and foreign exchange risk, systems of limits are introduced. The Bank implements the sensitivity analyses and scenario analyses, provided that one or several risk factors are changed in regular or stressful circumstances, and the results of such analyses are reported to the competent bodies of HBOR. Systems of pro-active risk management are continuously developed for the purpose of reducing possible future risks.

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

- Assets and Liabilities Management Committee (ALCO) – manages liquidity risk, interest rate risk in the Bank's book and currency risk within the framework of the accepted policies and procedures of the Bank that regulate this area,
- Credit Risk Evaluation and Measurement Committee – manages credit risk within the framework set through accepted policies, procedures, and other internal acts that cover issues related to credit risk,
- HBOR Information System Management Committee – manages the resources of the information system and adequately manages the risks that result from the use of information technology,
- Business Changes Management Committee – manages business changes (co-ordination of procedures for the suggestion, approval, monitoring and implementation of business changes) in order to reduce risks associated with the implementation of business changes.

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

Notes to the Consolidated Interim Condensed Financial Statements include
significant accounting policies and other explanations
for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.2. Credit risk

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

The credit risk management system is the most important part of the HBOR business policy and is an important factor of its operation strategy. Therefore, this area has been regulated by a special document – the Credit Risk Management Procedures that are applied in all phases of the credit process (from the development of new bank products, credit application, monitoring of the client's business operations until the final loan repayment). The Credit Risk Management Procedures represent a comprehensive document that contains separate methodologies for the assessment of various target groups of clients.

For the purpose of mitigating credit risk and reducing operating expenses, in compliance with the Act on the Croatian Bank for Reconstruction and Development, the Bank approves part of its placements through commercial banks and leasing companies that bear the risk of loan repayment by final borrowers. All direct placements are mainly secured with a mortgage over real estate, and, if that is possible, the Bank obtains as security against credit risk a guarantee from the HAMAG-BICRO, and other types of warranties and guarantees. 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.

The Bank, with its developmental loan programmes, covers the entire Republic of Croatia with a special emphasis on supported areas and special concern areas. Credit risk is diversified across geographical areas, activities, industries and loan programmes. The Bank tries to avoid the excess concentration of credit risk and evenly develop all areas of the Republic of Croatia through the development of new loan programmes (products) and favourable terms and conditions of loans in accordance with the government strategy for the development of individual business activities.

As of 30 June 2016, the highest credit exposure of the Group to one debtor equalled HRK 2,700,787 thousand (as of 31 December 2015: HRK 2,764,572 thousand), and of the Bank HRK 2,699,394 thousand (31 December 2015: HRK 2,763,386 thousand) without considering the effect of mitigation through collateral received.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure

The table below shows the highest gross credit risk exposures existing 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	
	Gross highest exposure	Gross highest exposure	Gross highest exposure	Gross highest exposure
	Jun 30, 2016	Dec 31, 2015	Jun 30, 2016	Dec 31, 2015
Assets				
Cash on hand and due from banks	411,934	482,939	411,482	482,697
Deposits with other banks	165,050	359,397	164,022	356,351
Loans to financial institutions	11,933,124	12,522,652	11,933,124	12,522,652
Loans to other customers	9,934,266	9,223,069	9,934,266	9,223,069
Financial assets at fair value through profit or loss	4,494	3,707	-	-
Assets available for sale	3,469,989	2,870,315	3,430,623	2,832,323
Assets held to maturity	1,420	1,451	-	-
Other assets	5,157	3,575	3,544	2,278
Total	25,925,434	25,467,105	25,877,061	25,419,370
Guarantees and commitments				
Guarantees issued in HRK	27,883	4,303	27,883	4,303
Issued guarantees in foreign currency	1,403,715	1,042,484	1,403,715	1,042,484
Undrawn loans	2,731,384	3,354,940	2,731,384	3,354,940
EIF – subscribed, not called up capital	48,082	48,864	48,082	48,864
Open letters of credit in foreign currency	1,892	-	1,892	-
Other irrevocable contingent liabilities	335	335	335	335
Total	4,213,291	4,450,926	4,213,291	4,450,926
Total credit risk exposure	30,138,725	29,918,031	30,090,352	29,870,296

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Group Jun 30, 2016	Republic of Croatia	EU countries	Other countries	Total
Assets				
Cash on hand and due from banks	116,365	295,144	425	411,934
Deposits with other banks	6,182	158,868	-	165,050
Loans to financial institutions	11,933,124	-	-	11,933,124
Loans to other customers	9,696,490	-	237,776	9,934,266
Financial assets at fair value through profit or loss	4,494	-	-	4,494
Assets available for sale	3,444,301	25,688	-	3,469,989
Assets held to maturity	1,420	-	-	1,420
Other assets	4,637	520	-	5,157
Total	25,207,013	480,220	238,201	25,925,434
Guarantees and commitments				
Guarantees issued in HRK	26,679	1,204	-	27,883
Issued guarantees in foreign currency	1,403,715	-	-	1,403,715
Open letters of credit in foreign currency	1,892	-	-	1,892
Undrawn loans	2,731,384	-	-	2,731,384
EIF – subscribed, not called up capital	-	48,082	-	48,082
Other irrevocable contingent liabilities	335	-	-	335
Total	4,164,005	49,286	-	4,213,291
Total credit risk exposure	29,371,018	529,506	238,201	30,138,725

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Group Dec 31, 2015	Republic of Croatia	EU countries	Other countries	Total
Assets				
Cash on hand and due from banks	108,473	301,999	72,467	482,939
Deposits with other banks	56,864	302,533	-	359,397
Loans to financial institutions	12,522,528	-	124	12,522,652
Loans to other customers	8,997,934	-	225,135	9,223,069
Financial assets at fair value through profit or loss	3,707	-	-	3,707
Assets available for sale	2,845,869	24,446	-	2,870,315
Assets held to maturity	1,451	-	-	1,451
Other assets	3,025	550	-	3,575
Total	24,539,851	629,528	297,726	25,467,105
Guarantees and commitments				
Guarantees issued in HRK	3,099	1,204	-	4,303
Issued guarantees in foreign currency	1,042,484	-	-	1,042,484
Undrawn loans	3,319,026	-	35,914	3,354,940
EIF – subscribed, not called up capital	-	48,864	-	48,864
Other irrevocable contingent liabilities	335	-	-	335
Total	4,364,944	50,068	35,914	4,450,926
Total credit risk exposure	28,904,795	679,596	333,640	29,918,031

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Bank Jun 30, 2016	Republic of Croatia	EU countries	Other countries	Total
Assets				
Cash on hand and due from banks	115,913	295,144	425	411,482
Deposits with other banks	5,154	158,868	-	164,022
Loans to financial institutions	11,933,124	-	-	11,933,124
Loans to other customers	9,696,490	-	237,776	9,934,266
Assets available for sale	3,404,935	25,688	-	3,430,623
Other assets	3,544	-	-	3,544
Total	25,159,160	479,700	238,201	25,877,061
Guarantees and commitments				
Guarantees issued in HRK	26,679	1,204	-	27,883
Issued guarantees in foreign currency	1,403,715	-	-	1,403,715
Open letters of credit in foreign currency	1,892	-	-	1,892
Undrawn loans	2,731,384	-	-	2,731,384
EIF – subscribed, not called up capital	-	48,082	-	48,082
Other irrevocable contingent liabilities	335	-	-	335
Total	4,164,005	49,286	-	4,213,291
Total credit risk exposure	29,323,165	528,986	238,201	30,090,352

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Bank Dec 31, 2015	Republic of Croatia	EU countries	Other countries	Total
Assets				
Cash on hand and due from banks	108,231	301,999	72,467	482,697
Deposits with other banks	53,818	302,533	-	356,351
Loans to financial institutions	12,522,528	-	124	12,522,652
Loans to other customers	8,997,934	-	225,135	9,223,069
Assets available for sale	2,807,877	24,446	-	2,832,323
Other assets	2,221	57	-	2,278
Total	24,492,609	629,035	297,726	25,419,370
Guarantees and commitments				
Guarantees issued in HRK	3,099	1,204	-	4,303
Issued guarantees in foreign currency	1,042,484	-	-	1,042,484
Undrawn loans	3,319,026	-	35,914	3,354,940
EIF – subscribed, not called up capital	-	48,864	-	48,864
Other irrevocable contingent liabilities	335	-	-	335
Total	4,364,944	50,068	35,914	4,450,926
Total credit risk exposure	28,857,553	679,103	333,640	29,870,296

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

Concentration of assets and guarantees and commitments, according to industry, before and after the effect of mitigation through collateral received, is as follows:

Group	Gross highest exposure	Net highest exposure	Gross highest exposure	Net highest exposure
	Jun 30, 2016	Jun 30, 2016	Dec 31, 2015	Dec 31, 2015
Financial intermediation and insurance	14,447,223	-	15,448,725	-
Water and electric supply and other infrastructure	1,329,037	1,021,710	1,327,987	1,014,914
Tourism	3,258,583	444,928	2,615,100	188,306
Transport, warehousing and connections	1,534,925	700,308	1,589,312	202,870
Shipbuilding	1,578,695	384,741	1,213,286	349,937
Agriculture and fishery	558,629	90,534	602,769	120,446
Food industry	880,794	345,791	779,282	301,795
Construction industry	1,297,299	73,399	1,300,797	120,178
Other industry	442,003	111,586	462,418	128,268
Public administration	2,406,188	2,406,188	2,100,572	2,100,572
Education	17,574	11,311	29,101	22,928
Manufacture of basic metals and fabricated metal products, except machinery and equipment	236,265	75,535	241,181	49,443
Manufacture of chemicals and chemical products	64,466	16,672	47,936	20,360
Manufacture of other non-metallic mineral products	278,712	501	294,210	33,444
Pharmaceutical industry	583,168	839	602,278	1,904
Other	1,225,164	126,489	1,263,077	100,433
Total credit risk exposure	30,138,725	5,810,532	29,918,031	4,755,798

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

Concentration of assets and guarantees and commitments, according to industry, before and after the effect of mitigation through collateral received, is as follows:

Bank	Gross highest exposure	Net highest exposure	Gross highest exposure	Net highest exposure
	Jun 30, 2016	Jun 30, 2016	Dec 31, 2015	Dec 31, 2015
Financial intermediation and insurance	14,439,493	-	15,440,062	-
Water and electric supply and other infrastructure	1,329,037	1,021,710	1,327,987	1,014,914
Tourism	3,258,583	444,928	2,615,100	188,306
Transport, warehousing and connections	1,534,445	699,828	1,588,911	202,469
Shipbuilding	1,578,695	384,741	1,213,286	349,937
Agriculture and fishery	558,629	90,534	602,769	120,446
Food industry	880,683	345,680	779,209	301,722
Construction industry	1,297,172	73,271	1,300,685	120,066
Other industry	441,866	111,449	462,180	128,030
Public administration	2,367,629	2,367,629	2,063,320	2,063,320
Education	17,574	11,311	29,101	22,928
Manufacture of basic metals and fabricated metal products, except machinery and equipment	236,224	75,495	241,164	49,426
Manufacture of chemicals and chemical products	64,426	16,631	47,908	20,332
Manufacture of other non-metallic mineral products	278,565	354	294,166	33,399
Pharmaceutical industry	582,329	-	601,449	1,075
Other	1,225,002	126,328	1,262,999	100,356
Total credit risk exposure	30,090,352	5,769,889	29,870,296	4,716,726

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 Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

The fair value of collateral for the Group as of 30 June 2016 amounted to HRK 24,328,193 thousand (31 December 2015: HRK 25,162,233 thousand), and for the Bank HRK 24,320,463 thousand (31 December 2015: HRK 25,153,570 thousand).

In the total net highest exposure of the Bank as of 30 June 2016, the credit risk of HRK 4,122,182 thousand (31 December 2015: HRK 3,394,974 thousand) is not covered with ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 876,434 thousand (31 December 2015: HRK 408,096 thousand), from local (regional) authorities of HRK 348,530 thousand (31 December 2015: HRK 348,089 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 245,143 thousand (31 December 2015: HRK 248,878 thousand), government funds of HRK 2,012 thousand (31 December 2015: HRK 2,860 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 2,383,472 thousand (31 December 2015: HRK 2,077,357 thousand). In addition, an amount of HRK 266,591 thousand (31 December 2015: HRK 309,694 thousand) relates to receivables from a majority state-owned company (controlling influence).

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

Financial intermediation includes mainly commercial banks.

Credit risk exposure by internal credit rating:

Internal credit rating	Historical default rate	Historical default rate	Group		Bank	
	(%)	(%)				
	Jun 30, 2016	Dec 31, 2015	Jun 30, 2016	Dec 31, 2015	Jun 30, 2016	Dec 31, 2015
A	1.72%	1.66%	28,478,553	28,279,955	28,430,180	28,232,220
B	34.89%	34.91%	1,660,172	1,638,076	1,660,172	1,638,076
C	95.21%	94.05%	-	-	-	-
Total			30,138,725	29,918,031	30,090,352	29,870,296

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.2. Credit risk (continued)

Credit risk quality according to type of financial assets

Credit risk analysis, 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 internal credit rating, is as follows:

Group	Gross exposure of portfolio of risk group A	Gross exposure of portfolio of risk group B	Gross exposure of portfolio of risk group C	Gross exposure of total portfolio	Net exposure of portfolio of risk group A	Net exposure of portfolio of risk group B	Net exposure of portfolio of risk group C	Net exposure of total portfolio
Jun 30, 2016								
Assets								
Cash on hand and due from banks	411,934	-	-	411,934	-	-	-	-
Deposits with other banks	165,050	-	-	165,050	-	-	-	-
Loans to financial institutions	11,482,137	450,987	-	11,933,124	-	-	-	-
Loans to other customers	8,790,287	1,143,979	-	9,934,266	2,305,016	36,462	-	2,341,478
Financial assets at fair value through profit or loss	4,494	-	-	4,494	-	-	-	-
Assets available for sale	3,469,989	-	-	3,469,989	2,430,402	-	-	2,430,402
Assets held to maturity	1,420	-	-	1,420	1,420	-	-	1,420
Other assets	4,744	413	-	5,157	3,874	413	-	4,287
Total	24,330,055	1,595,379	-	25,925,434	4,740,712	36,875	-	4,777,587
Guarantees and commitments								
Guarantees issued in HRK	27,883	-	-	27,883	1,797	-	-	1,797
Issued guarantees in foreign currency	1,356,522	47,193	-	1,403,715	368,334	-	-	368,334
Open letters of credit in foreign currency	1,892	-	-	1,892	-	-	-	-
Undrawn loans	2,713,784	17,600	-	2,731,384	662,479	-	-	662,479
EIF – subscribed, not called up capital	48,082	-	-	48,082	-	-	-	-
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
Total	4,148,498	64,793	-	4,213,291	1,032,945	-	-	1,032,945
Total credit risk exposure	28,478,553	1,660,172	-	30,138,725	5,773,657	36,875	-	5,810,532

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.2. Credit risk (continued)

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

Credit risk analysis, 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 internal credit rating, is as follows (continued):

Group	Gross exposure of portfolio of risk group A	Gross exposure of portfolio of risk group B	Gross exposure of portfolio of risk group C	Gross exposure of total portfolio	Net exposure of portfolio of risk group A	Net exposure of portfolio of risk group B	Net exposure of portfolio of risk group C	Net exposure of total portfolio
Dec 31, 2015								
Assets								
Cash on hand and due from banks	482,939	-	-	482,939	-	-	-	-
Deposits with other banks	359,397	-	-	359,397	-	-	-	-
Loans to financial institutions	12,020,367	502,285	-	12,522,652	-	-	-	-
Loans to other customers	8,128,497	1,094,572	-	9,223,069	1,835,366	21,359	-	1,856,725
Financial assets at fair value through profit or loss	3,707	-	-	3,707	-	-	-	-
Assets available for sale	2,870,315	-	-	2,870,315	2,115,754	-	-	2,115,754
Assets held to maturity	1,451	-	-	1,451	1,451	-	-	1,451
Other assets	3,528	47	-	3,575	2,957	47	-	3,004
Total	23,870,201	1,596,904	-	25,467,105	3,955,528	21,406	-	3,976,934
Guarantees and commitments								
Guarantees issued in HRK	4,303	-	-	4,303	1,797	-	-	1,797
Issued guarantees in foreign currency	1,002,815	39,669	-	1,042,484	366,105	-	-	366,105
Undrawn loans	3,353,437	1,503	-	3,354,940	410,627	-	-	410,627
EIF – subscribed, not called up capital	48,864	-	-	48,864	-	-	-	-
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
Total	4,409,754	41,172	-	4,450,926	778,864	-	-	778,864
Total credit risk exposure	28,279,955	1,638,076	-	29,918,031	4,734,392	21,406	-	4,755,798

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.2. Credit risk (continued)

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

Credit risk analysis, 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 internal credit rating, is as follows (continued):

Bank	Gross exposure of portfolio of risk group A	Gross exposure of portfolio of risk group B	Gross exposure of portfolio of risk group C	Gross exposure of total portfolio	Net exposure of portfolio of risk group A	Net exposure of portfolio of risk group B	Net exposure of portfolio of risk group C	Net exposure of total portfolio
Jun 30, 2016								
Assets								
Cash on hand and due from banks	411,482	-	-	411,482	-	-	-	-
Deposits with other banks	164,022	-	-	164,022	-	-	-	-
Loans to financial institutions	11,482,137	450,987	-	11,933,124	-	-	-	-
Loans to other customers	8,790,287	1,143,979	-	9,934,266	2,305,016	36,462	-	2,341,478
Assets available for sale	3,430,623	-	-	3,430,623	2,392,227	-	-	2,392,227
Other assets	3,131	413	-	3,544	2,826	413	-	3,239
Total	24,281,682	1,595,379	-	25,877,061	4,700,069	36,875	-	4,736,944
Guarantees and commitments								
Guarantees issued in HRK	27,883	-	-	27,883	1,797	-	-	1,797
Issued guarantees in foreign currency	1,356,522	47,193	-	1,403,715	368,334	-	-	368,334
Open letters of credit in foreign currency	27,883	-	-	27,883	1,797	-	-	1,797
Undrawn loans	2,713,784	17,600	-	2,731,384	662,479	-	-	662,479
EIF – subscribed, not called up capital	48,082	-	-	48,082	-	-	-	-
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
Total	4,148,498	64,793	-	4,213,291	1,032,945	-	-	1,032,945
Total credit risk exposure	28,430,180	1,660,172	-	30,090,352	5,733,014	36,875	-	5,769,889

In the total net highest exposure of the Group and the Bank, the amount of loans to other customers of HRK 1,512,598 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 650,349 thousand, local (regional) authorities of HRK 348,530 thousand, public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 245,143 thousand and the government funds of HRK 1,985 thousand. An additional amount of HRK 266,591 thousand relates to receivables from majority state-owned companies (controlling influence).

The amount of assets available for sale and held to maturity is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 2,421,892 thousand for the Group and HRK 2,383,472 thousand for the Bank.

Other assets of HRK 1,011 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds,

The amount of HRK 224,766 thousand relates to a guarantee issued in foreign currency, for which the liability was assumed by the Republic of Croatia.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.2. Credit risk (continued)

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

Credit risk analysis, 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 internal credit rating, is as follows (continued):

Bank	Gross exposure of portfolio of risk group A	Gross exposure of portfolio of risk group B	Gross exposure of portfolio of risk group C	Gross exposure of total portfolio	Net exposure of portfolio of risk group A	Net exposure of portfolio of risk group B	Net exposure of portfolio of risk group C	Net exposure of total portfolio
Dec 31, 2015								
Assets								
Cash on hand and due from banks	482,697	-	-	482,697	-	-	-	-
Deposits with other banks	356,351	-	-	356,351	-	-	-	-
Loans to financial institutions	12,020,367	502,285	-	12,522,652	-	-	-	-
Loans to other customers	8,128,497	1,094,572	-	9,223,069	1,835,366	21,359	-	1,856,725
Assets available for sale	2,832,323	-	-	2,832,323	2,078,937	-	-	2,078,937
Other assets	2,231	47	-	2,278	2,153	47	-	2,200
Total	23,822,466	1,596,904	-	25,419,370	3,916,456	21,406	-	3,937,862
Guarantees and commitments								
Guarantees issued in HRK	4,303	-	-	4,303	1,797	-	-	1,797
Issued guarantees in foreign currency	1,002,815	39,669	-	1,042,484	366,105	-	-	366,105
Undrawn loans	3,353,437	1,503	-	3,354,940	410,627	-	-	410,627
EIF – subscribed, not called up capital	48,864	-	-	48,864	-	-	-	-
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
Total	4,409,754	41,172	-	4,450,926	778,864	-	-	778,864
Total credit risk exposure	28,232,220	1,638,076	-	29,870,296	4,695,320	21,406	-	4,716,726

In the total net highest exposure of the Group and the Bank, the amount of loans to other customers of HRK 1,084,770 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 175,285 thousand, local (regional) authorities of HRK 348,089 thousand, public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 248,878 thousand and the government funds of HRK 2,824 thousand. An additional amount of HRK 309,694 thousand relates to receivables from majority state-owned companies (controlling influence).

The amount of assets available for sale and held to maturity is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 2,114,454 thousand for the Group and HRK 2,077,357 thousand for the Bank.

Other assets of HRK 1,117 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

The amount of HRK 231,396 thousand relates to a guarantee issued in foreign currency, for which the liability was assumed by the Republic of Croatia.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.2. Credit risk (continued)

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

Credit risk quality according to the gross exposure of the type of financial assets on positions of assets and guarantees and commitments by risk category:

Group	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
Jun 30, 2016				
Assets				
Cash on hand and due from banks	411,934	-	-	411,934
Deposits with other banks	165,050	-	-	165,050
Loans to financial institutions	11,380,611	101,526	450,987	11,933,124
Loans to other customers	8,617,974	172,313	1,143,979	9,934,266
Financial assets at fair value through profit or loss	4,494	-	-	4,494
Assets available for sale	3,469,989	-	-	3,469,989
Assets held to maturity	1,420	-	-	1,420
Other assets	3,020	1,724	413	5,157
Total	24,054,492	275,563	1,595,379	25,925,434
Guarantees and commitments				
Guarantees issued in HRK	27,883	-	-	27,883
Issued guarantees in foreign currency	1,356,522	-	47,193	1,403,715
Open letters of credit in foreign currency	1,892	-	-	1,892
Undrawn loans	2,713,784	-	17,600	2,731,384
EIF – subscribed, not called up capital	48,082	-	-	48,082
Other irrevocable contingent liabilities	335	-	-	335
Total	4,148,498	-	64,793	4,213,291
Total credit risk exposure	28,202,990	275,563	1,660,172	30,138,725

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.2. Credit risk (continued)

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

Credit risk quality according to the gross exposure of the type of financial assets on positions of assets and guarantees and commitments by risk category (continued):

Group	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
Dec 31, 2015				
Assets				
Cash on hand and due from banks	482,939	-	-	482,939
Deposits with other banks	359,397	-	-	359,397
Loans to financial institutions	11,958,892	61,475	502,285	12,522,652
Loans to other customers	7,875,356	253,141	1,094,572	9,223,069
Financial assets at fair value through profit or loss	3,707	-	-	3,707
Assets available for sale	2,870,315	-	-	2,870,315
Assets held to maturity	1,451	-	-	1,451
Other assets	2,529	999	47	3,575
Total	23,554,586	315,615	1,596,904	25,467,105
Guarantees and commitments				
Guarantees issued in HRK	4,303	-	-	4,303
Issued guarantees in foreign currency	1,002,815	-	39,669	1,042,484
Undrawn loans	3,353,437	-	1,503	3,354,940
EIF – subscribed, not called up capital	48,864	-	-	48,864
Other irrevocable contingent liabilities	335	-	-	335
Total	4,409,754	-	41,172	4,450,926
Total credit risk exposure	27,964,340	315,615	1,638,076	29,918,031

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.2. Credit risk (continued)

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

Credit risk quality according to the gross exposure of the type of financial assets on positions of assets and guarantees and commitments by risk category (continued):

Bank	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
Jun 30, 2016				
Assets				
Cash on hand and due from banks	411,482	-	-	411,482
Deposits with other banks	164,022	-	-	164,022
Loans to financial institutions	11,380,611	101,526	450,987	11,933,124
Loans to other customers	8,617,974	172,313	1,143,979	9,934,266
Assets available for sale	3,430,623	-	-	3,430,623
Other assets	1,764	1,367	413	3,544
Total	24,006,476	275,206	1,595,379	25,877,061
Guarantees and commitments				
Guarantees issued in HRK	27,883	-	-	27,883
Issued guarantees in foreign currency	1,356,522	-	47,193	1,403,715
Open letters of credit in foreign currency	1,892	-	-	1,892
Undrawn loans	2,713,784	-	17,600	2,731,384
EIF – subscribed, not called up capital	48,082	-	-	48,082
Other irrevocable contingent liabilities	335	-	-	335
Total	4,148,498	-	64,793	4,213,291
Total credit risk exposure	28,154,974	275,206	1,660,172	30,090,352

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.2. Credit risk (continued)

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

Credit risk quality according to the gross exposure of the type of financial assets on positions of assets and guarantees and commitments by risk category (continued):

Bank	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
Dec 31, 2015				
Assets				
Cash on hand and due from banks	482,697	-	-	482,697
Deposits with other banks	356,351	-	-	356,351
Loans to financial institutions	11,958,892	61,475	502,285	12,522,652
Loans to other customers	7,875,356	253,141	1,094,572	9,223,069
Assets available for sale	2,832,323	-	-	2,832,323
Other assets	1,633	598	47	2,278
Total	23,507,252	315,214	1,596,904	25,419,370
Guarantees and commitments				
Guarantees issued in HRK	4,303	-	-	4,303
Issued guarantees in foreign currency	1,002,815	-	39,669	1,042,484
Undrawn loans	3,353,437	-	1,503	3,354,940
EIF – subscribed, not called up capital	48,864	-	-	48,864
Other irrevocable contingent liabilities	335	-	-	335
Total	4,409,754	-	41,172	4,450,926
Total credit risk exposure	27,917,006	315,214	1,638,076	29,870,296

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.2. Credit risk (continued)

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

Aging analysis of past due but not impaired loans per class of financial asset:

Group Jun 30, 2016	Up to 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Assets						
Loans to financial institutions	33,822	2,082	38,971	4,040	22,611	101,526
Loans to other customers	81,310	8,204	439	9,459	72,901	172,313
Other assets	1,256	97	143	221	7	1,724
Total	116,388	10,383	39,553	13,720	95,519	275,563

Group Dec 31, 2015	Up to 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Assets						
Loans to financial institutions	5,733	4,823	8,588	33,853	8,478	61,475
Loans to other customers	118,913	15,466	11,209	8,959	98,594	253,141
Other assets	272	169	168	377	13	999
Total	124,918	20,458	19,965	43,189	107,085	315,615

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.2. Credit risk (continued)

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

Aging analysis of past due but not impaired loans per class of financial asset (continued):

Bank Jun 30, 2016	Up to 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Assets						
Loans to financial institutions	33,822	2,082	38,971	4,040	22,611	101,526
Loans to other customers	81,310	8,204	439	9,459	72,901	172,313
Other assets	1,121	9	18	212	7	1,367
Total	116,253	10,295	39,428	13,711	95,519	275,206

Bank Dec 31, 2015	Up to 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Assets						
Loans to financial institutions	5,733	4,823	8,588	33,853	8,478	61,475
Loans to other customers	118,913	15,466	11,209	8,959	98,594	253,141
Other assets	124	11	85	365	13	598
Total	124,770	20,300	19,882	43,177	107,085	315,214

Since the amount of past due but not impaired receivables of the subsidiary company is immaterial, the following text contains the breakdown of changes in past due but not impaired loans of the parent company.

From total due and not impaired loans to financial institutions in the reporting period, an amount of HRK 95,010 thousand, i.e. 94%, relates to not executed extensions of short-term revolving loans.

If the total amount of due and not impaired loans to financial institutions is reduced by the debt of banks under short-term revolving loans, the remaining debt equals HRK 6,516 thousand.

From total due and not impaired loans to other customers in the reporting period, an amount of HRK 81,310 thousand, i.e. 47%, relates to delays of up to 15 days, of which the amount of HRK 6,827 thousand, i.e. 8%, was guaranteed by the Republic of Croatia.

From total due and not impaired loans to financial institutions in 2015, an amount of HRK 56,829 thousand, i.e. 92%, relates to not executed extensions of short-term revolving loans.

If the total amount of due and not impaired loans to financial institutions is reduced by the debt of financial institutions under short-term revolving loans, the remaining debt equals HRK 4,646 thousand.

From total due and not impaired loans to other customers in 2015, an amount of HRK 118,913 thousand, i.e. 47%, relates to delays of up to 15 days, of which the amount of HRK 9,306 thousand, i.e. 8%, was guaranteed by the Republic of Croatia.

Notes to the Consolidated Interim Condensed Financial Statements include
significant accounting policies and other explanations
for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.3. 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 Managing Board and the Asset and Liability Management Committee.

In order to manage liquidity risk, the Bank has established a system of limits, it monitors and controls limit utilisation, maintains the adequate level of liquidity reserve, continuously monitors current and planned liquidity, ensures HRK and foreign currency funds necessary for timely settlement of liabilities and for disbursements of approved loans and planned loan approvals. In terms of liquidity risk management, the Bank monitors and strives to achieve compatibility of contracted and planned placements with the respective sources according to maturity. The Bank does not hold deposits of citizens and is therefore not exposed to wide daily fluctuations in liquidity. The Bank monitors liquidity risk by implementing the sensitivity analyses and scenario analyses in regular or stressful business conditions. Early warning signals and procedures for liquidity crisis indication or occurrence are determined.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.3. Liquidity risk (continued)

The table below provides an analysis of total assets and total liabilities and equity as of 30 June 2016 and 31 December 2015 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 Jun 30, 2016	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash on hand and due from banks	411,947	-	-	-	-	411,947
Deposits with other banks	15,239	1,028	148,783	-	-	165,050
Loans to financial institutions*	668,290	501,913	1,758,305	3,179,429	5,825,187	11,933,124
Loans to other customers	1,561,752	156,985	889,585	1,452,207	5,873,737	9,934,266
Financial assets at fair value through profit or loss	4,494	-	-	-	-	4,494
Assets available for sale	3,454,124	15,809	56	-	-	3,469,989
Assets held to maturity	-	9	4	-	1,407	1,420
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	58,811	58,811
Non-current assets held for sale	-	-	903	2,740	18,139	21,782
Other assets	4,957	1,168	823	31	331	7,310
Total assets (1)	6,120,803	676,912	2,798,459	4,634,407	11,777,612	26,008,193
Liabilities						
Deposits	196,633	1,123	4,223	54,915	29,250	286,144
Borrowings	73,591	237,537	1,581,628	2,677,282	7,376,615	11,946,653
Bonds payable	225,380	24,443	1,876,900	-	1,112,419	3,239,142
Other liabilities	149,726	33,471	111,518	210,684	244,562	749,961
Total liabilities	645,330	296,574	3,574,269	2,942,881	8,762,846	16,221,900
Equity						
Founder's capital	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	2,682,127	2,682,127
Other reserves	-	-	-	-	57,555	57,555
Net profit for the year	-	-	-	-	107,678	107,678
Total equity attributable to equity holders of the parent	-	-	-	-	9,773,992	9,773,992
Guarantee fund	-	-	-	-	12,301	12,301
Total equity	-	-	-	-	9,786,293	9,786,293
Total liabilities and total equity (2)	645,330	296,574	3,574,269	2,942,881	18,549,139	26,008,193
Net assets/liabilities (1) – (2)	5,475,473	380,338	(775,810)	1,691,526	(6,771,527)	-
Net cumulative assets/liabilities	5,475,473	5,855,811	5,080,001	6,771,527	-	-

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

* Receivables of HRK 329,457 thousand relate to reverse REPO agreements.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.3. Liquidity risk (continued)

Group Dec 31, 2015	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
Assets						
Cash on hand and due from banks	482,950	-	-	-	-	482,950
Deposits with other banks	205,177	-	154,220	-	-	359,397
Loans to financial institutions*	1,121,029	589,597	1,751,518	3,498,533	5,561,975	12,522,652
Loans to other customers	1,384,857	198,848	735,810	1,659,884	5,243,670	9,223,069
Financial assets at fair value through profit or loss	3,707	-	-	-	-	3,707
Assets available for sale	2,856,268	13,976	71	-	-	2,870,315
Assets held to maturity	-	10	4	-	1,437	1,451
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	62,238	62,238
Non-current assets held for sale	-	888	-	3,415	17,412	21,715
Other assets	3,175	1,057	504	-	542	5,278
Total assets (1)	6,057,163	804,376	2,642,127	5,161,832	10,887,274	25,552,772
Liabilities						
Deposits	112,993	-	5	101,555	22,083	236,636
Borrowings	74,834	195,163	1,527,267	2,499,200	7,181,623	11,478,087
Bonds payable	-	101,852	227,073	1,908,762	1,128,879	3,366,566
Other liabilities	169,362	36,280	120,393	223,958	256,946	806,939
Total liabilities	357,189	333,295	1,874,738	4,733,475	8,589,531	15,888,228
Equity						
Founder's capital	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	2,475,862	2,475,862
Other reserves	-	-	-	-	43,283	43,283
Net profit for the year	-	-	-	-	206,265	206,265
Total equity attributable to equity holders of the parent	-	-	-	-	9,652,042	9,652,042
Guarantee fund	-	-	-	-	12,502	12,502
Total equity	-	-	-	-	9,664,544	9,664,544
Total liabilities and total equity (2)	357,189	333,295	1,874,738	4,733,475	18,254,075	25,552,772
Net assets/liabilities (1) – (2)	5,699,974	471,081	767,389	428,357	(7,366,801)	-
Net cumulative assets/liabilities	5,699,974	6,171,055	6,938,444	7,366,801	-	-

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

* Receivables of HRK 606,930 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 HRK 9,400 thousand was placed in the 1 up to 3 months maturity category.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.3. Liquidity risk (continued)

The table below provides an analysis of total assets and total liabilities and equity as of 30 June 2016 and 31 December 2015 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 Jun 30, 2016	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash on hand and due from banks	411,495	-	-	-	-	411,495
Deposits with other banks	15,239	-	148,783	-	-	164,022
Loans to financial institutions*	668,290	501,913	1,758,305	3,179,429	5,825,187	11,933,124
Loans to other customers	1,561,752	156,985	889,585	1,452,207	5,873,737	9,934,266
Assets available for sale	3,414,897	15,726	-	-	-	3,430,623
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	58,699	58,699
Non-current assets held for sale	-	-	903	2,740	18,139	21,782
Other assets	4,003	516	815	31	50	5,415
Total assets (1)	6,075,676	675,140	2,798,391	4,634,407	11,811,936	25,995,550
Liabilities						
Deposits	196,633	1,123	4,223	54,915	29,250	286,144
Borrowings	73,591	237,537	1,581,628	2,677,282	7,376,615	11,946,653
Bonds payable	225,380	24,443	1,876,900	-	1,112,419	3,239,142
Other liabilities	149,301	32,124	107,967	204,709	246,185	740,286
Total liabilities	644,905	295,227	3,570,718	2,936,906	8,764,469	16,212,225
Equity						
Founder's capital	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	2,682,131	2,682,131
Other reserves	-	-	-	-	55,026	55,026
Net profit for the year	-	-	-	-	107,235	107,235
Capital	-	-	-	-	9,771,024	9,771,024
Guarantee fund	-	-	-	-	12,301	12,301
Total equity	-	-	-	-	9,783,325	9,783,325
Total liabilities and total equity (2)	644,905	295,227	3,570,718	2,936,906	18,547,794	25,995,550
Net assets/liabilities (1) – (2)	5,430,771	379,913	(772,327)	1,697,501	(6,735,858)	-
Net cumulative assets/liabilities	5,430,771	5,810,684	5,038,357	6,735,858	-	-

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

* Receivables of HRK 329,457 thousand relate to reverse REPO agreements.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.3. Liquidity risk (continued)

Bank Dec 31, 2015	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
Assets						
Cash on hand and due from banks	482,708	-	-	-	-	482,708
Deposits with other banks	205,177	-	151,174	-	-	356,351
Loans to financial institutions*	1,121,029	589,597	1,751,518	3,498,533	5,561,975	12,522,652
Loans to other customers	1,384,857	198,848	735,810	1,659,884	5,243,670	9,223,069
Assets available for sale	2,818,431	13,892	-	-	-	2,832,323
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	62,083	62,083
Non-current assets held for sale	-	888	-	3,415	17,412	21,715
Other assets	2,528	410	501	-	312	3,751
Total assets (1)	6,014,730	803,635	2,639,003	5,161,832	10,921,576	25,540,776
Liabilities						
Deposits	112,993	-	5	101,555	22,083	236,636
Borrowings	74,834	195,163	1,527,267	2,499,200	7,181,623	11,478,087
Bonds payable	-	101,852	227,073	1,908,762	1,128,879	3,366,566
Other liabilities	168,827	34,611	116,993	218,297	258,312	797,040
Total liabilities	356,654	331,626	1,871,338	4,727,814	8,590,897	15,878,329
Equity						
Founder's capital	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	2,476,903	2,476,903
Other reserves	-	-	-	-	41,182	41,182
Net profit for the year	-	-	-	-	205,228	205,228
Capital	-	-	-	-	9,649,945	9,649,945
Guarantee fund	-	-	-	-	12,502	12,502
Total equity	-	-	-	-	9,662,447	9,662,447
Total liabilities and total equity (2)	356,654	331,626	1,871,338	4,727,814	18,253,344	25,540,776
Net assets/liabilities (1) – (2)	5,658,076	472,009	767,665	434,018	(7,331,768)	-
Net cumulative assets/liabilities	5,658,076	6,130,085	6,897,750	7,331,768	-	-

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

* Receivables of HRK 606,930 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 HRK 9,400 thousand was placed in the 1 up to 3 months maturity category.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.3. Liquidity risk (continued)

The table below indicates the remaining contractual maturity of financial liabilities of the Group in undiscounted amounts:

Group Jun 30, 2016	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
Financial liabilities						
Deposits	196,633	1,123	4,223	54,915	29,250	286,144
Borrowings	100,825	208,913	1,773,742	3,275,719	8,606,093	13,965,292
Bonds payable	236,210	-	2,038,424	135,229	1,180,033	3,589,896
Other liabilities	149,726	33,471	111,518	210,684	244,562	749,961
Total	683,394	243,507	3,927,907	3,676,547	10,059,938	18,591,293

Group Dec 31, 2015	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
Financial liabilities						
Deposits	112,993	-	5	101,555	22,083	236,636
Borrowings	102,360	176,106	1,736,070	3,160,537	8,796,440	13,971,513
Bonds payable	-	-	402,237	2,141,631	1,266,310	3,810,178
Other liabilities	169,362	36,280	120,393	223,958	256,946	806,939
Total	384,715	212,386	2,258,705	5,627,681	10,341,779	18,825,266

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

31. Risk management (continued)

31.3. Liquidity risk (continued)

The table below indicates the remaining contractual maturity of financial liabilities of the Bank in undiscounted amounts:

Bank Jun 30, 2016	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
Financial liabilities						
Deposits	196,633	1,123	4,223	54,915	29,250	286,144
Borrowings	100,825	208,913	1,773,742	3,275,719	8,606,093	13,965,292
Bonds payable	236,210	-	2,038,424	135,229	1,180,033	3,589,896
Other liabilities	149,301	32,124	107,967	204,709	246,185	740,286
Total	682,969	242,160	3,924,356	3,670,572	10,061,561	18,581,618

Bank Dec 31, 2015	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
Financial liabilities						
Deposits	112,993	-	5	101,555	22,083	236,636
Borrowings	102,360	176,106	1,736,070	3,160,537	8,796,440	13,971,513
Bonds payable	-	-	402,237	2,141,631	1,266,310	3,810,178
Other liabilities	168,827	34,611	116,993	218,297	258,312	797,040
Total	384,180	210,717	2,255,305	5,622,020	10,343,145	18,815,367

Notes to the Consolidated Interim Condensed Financial Statements include
significant accounting policies and other explanations
for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.4. Market risk

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

16.4.1. Interest rate risk in the Bank's book

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 Managing 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 presents the sensitivity of the Bank to the changes in interest rates. Interest rates are structured per currency, type and value, and projections of average weighted interest rates for Bank's funds and placements are made. Furthermore, in addition to harmonising interest rates on sources and placements, current market conditions and movements in forecasted market indicators are also monitored.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.4. Market risk (continued)

16.4.1. Interest rate risk in the Bank's book (continued)

The following tables demonstrate the sensitivity of the Group to interest rates risk as of 30 June 2016 and 31 December 2015 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter. Assets and liabilities on which interest is not charged are placed into the non-interest bearing category. The tables below demonstrate the estimation of Group's interest rate risk exposure as of 30 June 2016 and 31 December 2015 which may not be indicative for the positions in other periods.

Group Jun 30, 2016	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
Assets							
Cash on hand and due from banks	452	-	-	-	-	411,495	411,947
Deposits with other banks	15,238	-	149,752	-	-	60	165,050
Loans to financial institutions	660,107	933,815	1,878,636	2,957,636	5,489,213	13,717	11,933,124
Loans to other customers	1,647,594	562,614	909,086	1,216,508	5,555,646	42,818	9,934,266
Financial assets at fair value through profit or loss	-	-	-	-	-	4,494	4,494
Assets available for sale	2,406,828	-	-	-	-	1,063,161	3,469,989
Assets held to maturity	-	-	-	-	1,406	14	1,420
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	58,811	58,811
Non-current assets held for sale	-	-	-	-	-	21,782	21,782
Other assets	-	-	-	-	-	7,310	7,310
Total assets (1)	4,730,219	1,496,429	2,937,474	4,174,144	11,046,265	1,623,662	26,008,193

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.4. Market risk (continued)

16.4.1. Interest rate risk in the Bank's book (continued)

Group Jun 30, 2016	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
Liabilities							
Deposits	-	-	-	-	-	286,144	286,144
Borrowings	73,591	172,174	1,583,506	2,675,404	7,376,615	65,363	11,946,653
Bonds payable	225,380	-	1,876,900	-	1,112,419	24,443	3,239,142
Other liabilities	-	-	-	-	-	749,961	749,961
Total liabilities	298,971	172,174	3,460,406	2,675,404	8,489,034	1,125,911	16,221,900
Equity							
Founder's capital	-	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	-	2,682,127	2,682,127
Other reserves	-	-	-	-	-	57,555	57,555
Net profit for the year	-	-	-	-	-	107,678	107,678
Total equity attributable to equity holders of the parent	-	-	-	-	-	9,773,992	9,773,992
Guarantee fund	-	-	-	-	-	12,301	12,301
Total equity	-	-	-	-	-	9,786,293	9,786,293
Total liabilities and total equity (2)	298,971	172,174	3,460,406	2,675,404	8,489,034	10,912,204	26,008,193
Net assets/liabilities (1) – (2)	4,431,248	1,324,255	(522,932)	1,498,740	2,557,231	(9,288,542)	-

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.4. Market risk (continued)

16.4.1. Interest rate risk in the Bank's book (continued)

Group Dec 31, 2015	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
Assets							
Cash on hand and due from banks	242	-	-	-	-	482,708	482,950
Deposits with other banks	204,986	-	154,174	-	-	237	359,397
Loans to financial institutions	1,114,347	1,075,199	1,915,320	3,233,354	5,170,599	13,833	12,522,652
Loans to other customers	1,442,435	620,953	1,008,086	1,195,079	4,908,612	47,904	9,223,069
Financial assets at fair value through profit or loss	-	-	-	-	-	3,707	3,707
Assets available for sale	2,102,226	-	-	-	-	768,089	2,870,315
Assets held to maturity	-	-	-	-	1,437	14	1,451
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	62,238	62,238
Non-current assets held for sale	-	-	-	-	-	21,715	21,715
Other assets	-	-	-	-	-	5,278	5,278
Total assets (1)	4,864,236	1,696,152	3,077,580	4,428,433	10,080,648	1,405,723	25,552,772
Liabilities							
Deposits	-	-	-	-	-	236,636	236,636
Borrowings	74,834	127,590	1,531,085	2,495,382	7,181,623	67,573	11,478,087
Bonds payable	-	-	227,073	1,908,762	1,128,879	101,852	3,366,566
Other liabilities	-	-	-	-	-	806,939	806,939
Total liabilities	74,834	127,590	1,758,158	4,404,144	8,310,502	1,213,000	15,888,228
Equity							
Founder's capital	-	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	-	2,475,862	2,475,862
Other reserves	-	-	-	-	-	43,283	43,283
Net profit for the year	-	-	-	-	-	206,265	206,265
Total equity attributable to equity holders of the parent	-	-	-	-	-	9,652,042	9,652,042
Guarantee fund	-	-	-	-	-	12,502	12,502
Total equity	-	-	-	-	-	9,664,544	9,664,544
Total liabilities and total equity (2)	74,834	127,590	1,758,158	4,404,144	8,310,502	10,877,544	25,552,772
Net assets/liabilities (1) – (2)	4,789,402	1,568,562	1,319,422	24,289	1,770,146	(9,471,821)	-

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.4. Market risk (continued)

16.4.1. Interest rate risk in the Bank's book (continued)

The following tables demonstrate the sensitivity of HBOR to interest rates risk as of 30 June 2016 and 31 December 2015 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 30 June 2016 and 31 December 2015 which may not be indicative for the positions in other periods.

Bank	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
Jun 30, 2016							
Assets							
Cash on hand and due from banks	-	-	-	-	-	411,495	411,495
Deposits with other banks	15,238	-	148,752	-	-	32	164,022
Loans to financial institutions	660,107	933,815	1,878,636	2,957,636	5,489,213	13,717	11,933,124
Loans to other customers	1,647,594	562,614	909,086	1,216,508	5,555,646	42,818	9,934,266
Assets available for sale	2,368,297	-	-	-	-	1,062,326	3,430,623
Investments in subsidiaries	-	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	58,699	58,699
Non-current assets held for sale	-	-	-	-	-	21,782	21,782
Other assets	-	-	-	-	-	5,415	5,415
Total assets (1)	4,691,236	1,496,429	2,936,474	4,174,144	11,044,859	1,652,408	25,995,550

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.4. Market risk (continued)

16.4.1. Interest rate risk in the Bank's book (continued)

Bank Jun 30, 2016	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
Liabilities							
Deposits	-	-	-	-	-	286,144	286,144
Borrowings	73,591	172,174	1,583,506	2,675,404	7,376,615	65,363	11,946,653
Bonds payable	225,380	-	1,876,900	-	1,112,419	24,443	3,239,142
Other liabilities	-	-	-	-	-	740,286	740,286
Total liabilities	298,971	172,174	3,460,406	2,675,404	8,489,034	1,116,236	16,212,225
Equity							
Founder's capital	-	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	-	2,682,131	2,682,131
Other reserves	-	-	-	-	-	55,026	55,026
Net profit for the year	-	-	-	-	-	107,235	107,235
Capital	-	-	-	-	-	9,771,024	9,771,024
Guarantee fund	-	-	-	-	-	12,301	12,301
Total equity	-	-	-	-	-	9,783,325	9,783,325
Total liabilities and total equity (2)	298,971	172,174	3,460,406	2,675,404	8,489,034	10,899,561	25,995,550
Net assets/liabilities (1) – (2)	4,392,265	1,324,255	(523,932)	1,498,740	2,555,825	(9,247,153)	-

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.4. Market risk (continued)

16.4.1. Interest rate risk in the Bank's book (continued)

Bank Dec 31, 2015	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
Assets							
Cash on hand and due from banks	-	-	-	-	-	482,708	482,708
Deposits with other banks	204,986	-	151,174	-	-	191	356,351
Loans to financial institutions	1,114,347	1,075,199	1,915,320	3,233,354	5,170,599	13,833	12,522,652
Loans to other customers	1,442,435	620,953	1,008,086	1,195,079	4,908,612	47,904	9,223,069
Assets available for sale	2,065,045	-	-	-	-	767,278	2,832,323
Investments in subsidiaries	-	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	62,083	62,083
Non-current assets held for sale	-	-	-	-	-	21,715	21,715
Other assets	-	-	-	-	-	3,751	3,751
Total assets (1)	4,826,813	1,696,152	3,074,580	4,428,433	10,079,211	1,435,587	25,540,776
Liabilities							
Deposits	-	-	-	-	-	236,636	236,636
Borrowings	74,834	127,590	1,531,085	2,495,382	7,181,623	67,573	11,478,087
Bonds payable	-	-	227,073	1,908,762	1,128,879	101,852	3,366,566
Other liabilities	-	-	-	-	-	797,040	797,040
Total liabilities	74,834	127,590	1,758,158	4,404,144	8,310,502	1,203,101	15,878,329
Equity							
Founder's capital	-	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	-	2,476,903	2,476,903
Other reserves	-	-	-	-	-	41,182	41,182
Net profit for the year	-	-	-	-	-	205,228	205,228
Capital	-	-	-	-	-	9,649,945	9,649,945
Guarantee fund	-	-	-	-	-	12,502	12,502
Total equity	-	-	-	-	-	9,662,447	9,662,447
Total liabilities and total equity (2)	74,834	127,590	1,758,158	4,404,144	8,310,502	10,865,548	25,540,776
Net assets/liabilities (1) – (2)	4,751,979	1,568,562	1,316,422	24,289	1,768,709	(9,429,961)	-

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.4. Market risk (continued)

16.4.1. Interest rate risk in the Bank's book (continued)

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

	Group		Bank	
	Jun 30, 2016	Dec 31, 2015	Jun 30, 2016	Dec 31, 2015
Assets				
Fixed interest rate assets	22,641,048	22,176,481	22,599,659	22,134,621
Variable interest rate assets	1,743,483	1,970,568	1,743,483	1,970,568
Non-interest bearing	1,623,662	1,405,723	1,652,408	1,435,587
Total assets	26,008,193	25,552,772	25,995,550	25,540,776
Liabilities				
Fixed interest rate liabilities	15,090,354	14,667,593	15,090,354	14,667,593
Variable interest rate liabilities	5,635	7,635	5,635	7,635
Non-interest bearing	10,912,204	10,877,544	10,899,561	10,865,548
Total liabilities and total equity	26,008,193	25,552,772	25,995,550	25,540,776

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.4. Market risk (continued)

16.4.1. Interest rate risk in the Bank's book (continued)

Sensitivity analysis

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

Volatility of reference interest rates in the previous 12 months 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. All other variables remain constant.

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

Currency	Increase in b.p. Jun 30, 2016	Effect on profit Jun 30, 2016	Increase in b.p. in 2015	Effect on profit in 2015
		HRK '000		HRK '000
EUR	+10	779	+40	7,237
USD	+11	210	+11	161

Currency	Decrease in b.p. Jun 30, 2016	Effect on profit Jun 30, 2016	Decrease in b.p. in 2015	Effect on profit in 2015
		HRK '000		HRK '000
EUR	-10	(779)	-40	(7,237)
USD	-11	(210)	-11	(161)

Notes to the Consolidated Interim Condensed Financial Statements include
significant accounting policies and other explanations
for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.4. Market risk (continued)

16.4.2. Currency risk

The basic principles for managing HBOR's currency risk are determined in the internal documents as well as in the decisions and conclusions made by the Managing 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 proceedings both for cases of crisis indication and occurrence have been determined, and reports necessary for comprehensive perception of this risk have been defined.

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

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.4. Market risk (continued)

16.4.2. Currency risk (continued)

Total assets and total liabilities and equity as of 30 June 2016 and 31 December 2015 in HRK and foreign currencies can be shown as follows:

Group	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
Jun 30, 2016						
Assets						
Cash on hand and due from banks	492	295,156	1,192	296,840	115,107	411,947
Deposits with other banks	10,125	148,783	5,114	164,022	1,028	165,050
Loans to financial institutions	13,357	6,716,104	-	6,729,461	5,203,663	11,933,124
Loans to other customers	179,460	6,292,366	-	6,471,826	3,462,440	9,934,266
Financial assets at fair value through profit or loss	-	1,433	-	1,433	3,061	4,494
Assets available for sale	14,153	935,632	-	949,785	2,520,204	3,469,989
Assets held to maturity	-	1,420	-	1,420	-	1,420
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	58,811	58,811
Non-current assets held for sale	-	-	-	-	21,782	21,782
Other assets	-	519	-	519	6,791	7,310
Total assets (1)	217,587	14,391,413	6,306	14,615,306	11,392,887*	26,008,193
Liabilities						
Deposits	52,613	166,189	6,147	224,949	61,195	286,144
Borrowings	-	11,199,739	-	11,199,739	746,914	11,946,653
Bonds payable	-	3,239,142	-	3,239,142	-	3,239,142
Other liabilities	151	8,810	9,988	18,949	731,012	749,961
Total liabilities	52,764	14,613,880	16,135	14,682,779	1,539,121	16,221,900
Equity						
Founder's capital	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	2,682,127	2,682,127
Other reserves	-	-	-	-	57,555	57,555
Net profit for the year	-	-	-	-	107,678	107,678
Total equity attributable to equity holders of the parent	-	-	-	-	9,773,992	9,773,992
Guarantee fund	-	12,301	-	12,301	-	12,301
Total equity	-	12,301	-	12,301	9,773,992	9,786,293
Total liabilities and total equity (2)	52,764	14,626,181	16,135	14,695,080	11,313,113	26,008,193
Net assets/liabilities (1) – (2)	164,823	(234,768)	(9,829)**	(79,774)	79,774	-

*Amounts linked to a one-way currency clause represent HRK 295,168 thousand.

**Reported gap is a result of provisions made for issued foreign currency guarantees in other foreign currencies stated under "Other liabilities".

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.4. Market risk (continued)

16.4.2. Currency risk (continued)

Group	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
Dec 31, 2015						
Assets						
Cash on hand and due from banks	72,536	302,044	775	375,355	107,595	482,950
Deposits with other banks	-	350,813	5,538	356,351	3,046	359,397
Loans to financial institutions	-	6,951,331	-	6,951,331	5,571,321	12,522,652
Loans to other customers	152,223	5,325,845	-	5,478,068	3,745,001	9,223,069
Financial assets at fair value through profit or loss	-	2,690	-	2,690	1,017	3,707
Assets available for sale	14,629	1,073,568	-	1,088,197	1,782,118	2,870,315
Assets held to maturity	-	1,451	-	1,451	-	1,451
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	62,238	62,238
Non-current assets held for sale	-	-	-	-	21,715	21,715
Other assets	-	495	-	495	4,783	5,278
Total assets (1)	239,388	14,008,237	6,313	14,253,938	11,298,834*	25,552,772
Liabilities						
Deposits	75,197	89,531	6,135	170,863	65,773	236,636
Borrowings	-	10,731,184	-	10,731,184	746,903	11,478,087
Bonds payable	-	3,366,566	-	3,366,566	-	3,366,566
Other liabilities	95	8,541	9,960	18,596	788,343	806,939
Total liabilities	75,292	14,195,822	16,095	14,287,209	1,601,019	15,888,228
Equity						
Founder's capital	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	2,475,862	2,475,862
Other reserves	-	-	-	-	43,283	43,283
Net profit for the year	-	-	-	-	206,265	206,265
Total equity attributable to equity holders of the parent	-	-	-	-	9,652,042	9,652,042
Guarantee fund	-	12,502	-	12,502	-	12,502
Total equity	-	12,502	-	12,502	9,652,042	9,664,544
Total liabilities and total equity (2)	75,292	14,208,324	16,095	14,299,711	11,253,061	25,552,772
Net assets/liabilities (1) – (2)	164,096	(200,087)	(9,782)**	(45,773)	45,773	-

*Amounts linked to a one-way currency clause represent HRK 347,235 thousand.

**Reported gap is a result of provisions made for issued foreign currency guarantees in other foreign currencies stated under "Other liabilities".

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.4. Market risk (continued)

16.4.2. Currency risk (continued)

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
Dec 31, 2015						
Assets						
Cash on hand and due from banks	72,536	302,044	775	375,355	107,353	482,708
Deposits with other banks	-	350,813	5,538	356,351	-	356,351
Loans to financial institutions	-	6,951,331	-	6,951,331	5,571,321	12,522,652
Loans to other customers	152,223	5,325,845	-	5,478,068	3,745,001	9,223,069
Assets available for sale	14,629	1,063,164	-	1,077,793	1,754,530	2,832,323
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	62,083	62,083
Non-current assets held for sale	-	-	-	-	21,715	21,715
Other assets	-	-	-	-	3,751	3,751
Total assets (1)	239,388	13,993,197	6,313	14,238,898	11,301,878*	25,540,776
Liabilities						
Deposits	75,197	89,531	6,135	170,863	65,773	236,636
Borrowings	-	10,731,184	-	10,731,184	746,903	11,478,087
Bonds payable	-	3,366,566	-	3,366,566	-	3,366,566
Other liabilities	-	1,795	9,917	11,712	785,328	797,040
Total liabilities	75,197	14,189,076	16,052	14,280,325	1,598,004	15,878,329
Equity						
Founder's capital	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	2,476,903	2,476,903
Other reserves	-	-	-	-	41,182	41,182
Net profit for the year	-	-	-	-	205,228	205,228
Capital	-	-	-	-	9,649,945	9,649,945
Guarantee fund	-	12,502	-	12,502	-	12,502
Total equity	-	12,502	-	12,502	9,649,945	9,662,447
Total liabilities and total equity (2)	75,197	14,201,578	16,052	14,292,827	11,247,949	25,540,776
Net assets/liabilities (1) – (2)	164,191	(208,381)	(9,739)**	(53,929)	53,929	-

*Amounts linked to a one-way currency clause represent HRK 347,235 thousand.

**Reported gap is a result of provisions made for issued foreign currency guarantees in other foreign currencies stated under "Other liabilities".

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.4. Market risk (continued)

16.4.2. Currency risk (continued)

Total assets and total liabilities and equity as of 30 June 2016 and 31 December 2015 in HRK and foreign currencies can be shown as follows:

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
Jun 30, 2016						
Assets						
Cash on hand and due from banks	492	295,156	1,192	296,840	114,655	411,495
Deposits with other banks	10,125	148,783	5,114	164,022	-	164,022
Loans to financial institutions	13,357	6,716,104	-	6,729,461	5,203,663	11,933,124
Loans to other customers	179,460	6,292,366	-	6,471,826	3,462,440	9,934,266
Assets available for sale	14,153	926,955	-	941,108	2,489,515	3,430,623
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	58,699	58,699
Non-current assets held for sale	-	-	-	-	21,782	21,782
Other assets	-	-	-	-	5,415	5,415
Total assets (1)	217,587	14,379,364	6,306	14,603,257	11,392,293*	25,995,550
Liabilities						
Deposits	52,613	166,189	6,147	224,949	61,195	286,144
Borrowings	-	11,199,739	-	11,199,739	746,914	11,946,653
Bonds payable	-	3,239,142	-	3,239,142	-	3,239,142
Other liabilities	-	2,351	9,944	12,295	727,991	740,286
Total liabilities	52,613	14,607,421	16,091	14,676,125	1,536,100	16,212,225
Equity						
Founder's capital	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	2,682,131	2,682,131
Other reserves	-	-	-	-	55,026	55,026
Net profit for the year	-	-	-	-	107,235	107,235
Capital	-	-	-	-	9,771,024	9,771,024
Guarantee fund	-	12,301	-	12,301	-	12,301
Total equity	-	12,301	-	12,301	9,771,024	9,783,325
Total liabilities and total equity (2)	52,613	14,619,722	16,091	14,688,426	11,307,124	25,995,550
Net assets/liabilities (1) – (2)	164,974	(240,358)	(9,785)**	(85,169)	85,169	-

* Amounts linked to a one-way currency clause represent HRK 295,168 thousand.

**Reported gap is a result of provisions made for issued foreign currency guarantees in other foreign currencies stated under "Other liabilities".

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.4. Market risk (continued)

16.4.2. Currency risk (continued)

Sensitivity analysis

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

An assumption of reasonably possible fluctuations in EUR exchange rates against HRK was used in the foreign currency risk sensitivity analysis, with the other variables remaining stable, in order to assess the hypothetical effect on HBOR's profit as of 30 June 2016.

Volatility of the exchange rate EUR/HRK, determined using the standard deviation method on the changes of the foreign exchange rate EUR/HRK, equalled 1.8% in the previous 12 months (31 December 2015: 1.9%).

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

	Change in currency rate Jun 30, 2016 %	Effect on profit Jun 30, 2016 HRK' 000	Change in currency rate in 2015 %	Effect on profit in 2015 HRK' 000
EUR	+1.8%	8,237	+1.9%	6,823
EUR	-1.8%	(4,752)	-1.9%	(6,056)

16.5. Operational risk

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

The basic principles of operational risk management were identified in the umbrella act, the Operational Risk Management Policy, 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 and the recording and reporting system was established.

The Committee for IT management was established in order to monitor IT system performance with the purpose of IT resources management by setting the appropriate level of efficiency and security of IT for providing, among other things, appropriate management of risks arising from IT technology utilisation. The IT system security control function is in charge of monitoring the security of the IT system. Within this function, a system for the management of business continuity was established.

16. Risk management (continued)

16.6. Outsourcing risk

The aim of outsourcing is to reduce the operating costs, to achieve a higher level of services and to use the professional know-how of service providers in the performance of daily activities.

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

Central records of outsourced activities have been established and reports on materially significant outsourced activities are submitted to the Managing Board and the Supervisory Board of the Bank on an annual basis.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

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

Fair value represents the price that would be received to sell an asset or paid to transfer a liability of the Group 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 or legal provision 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 otherwise specified.

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.

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

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

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

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

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)

(All amounts are expressed in HRK thousand)

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

The Group'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 Statement of Financial Position date for new borrowings of a similar nature and with a similar remaining maturity. As the Group's long term borrowings mostly bear variable interest, the Group estimates that their carrying amount is reasonable approximation of fair value.

The fair value of bonds issued by HBOR on 30 June 2016 is stated in Note 13 and 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 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.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

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

The Group measures certain financial assets and financial liabilities at fair value at the end of each reporting period:

Group	Jun 30, 2016			Dec 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss:						
Shares in investment funds recognised at fair value through profit or loss	4,494	-	-	3,707	-	-
Total financial assets at fair value through	4,494	-	-	3,707	-	-
Assets available for sale:						
Debt instruments:						
Listed debt instruments:						
Bonds of the Ministry of Finance of the Republic of Croatia	859,715	-	-	679,617	-	-
Financial institution bonds	915	-	-	930	-	-
Corporate bonds	1,170	-	-	396	-	-
Treasury bills of the Ministry of Finance of the Republic of Croatia	1,544,542	-	-	-	1,418,963	-
Accrued interest	16,246	-	-	14,441	-	-
Unlisted debt instruments:						
Corporate bonds	-	-	487	-	-	-
Accrued interest	-	-	64	-	-	-
Total debt instruments	2,422,588	-	551	695,384	1,418,963	-
Equity instruments:						
Listed equity instruments:						
Corporate shares	8,203	-	-	-	-	-
Unlisted equity instruments:						
Investment in shares of foreign companies	-	27	-	-	26	-
Investment in financial institutions shares	-	161	-	-	161	-
Shares of foreign financial institutions – EIF	-	25,661	-	-	24,420	-
Corporate shares	-	-	-	-	-	-
Total equity instruments	8,203	25,849	-	-	24,607	-
Investments in investment funds:						
Shares classified as assets available for sale	1,012,798	-	-	729,010	-	-
Total investments in investment funds	1,012,798	-	-	729,010	-	-
Total assets available for sale	3,443,589	25,849	551	1,424,394	1,443,570	-

On 30 June 2016, Debt Instruments: Treasury Bills of the Ministry of Finance of the Republic of Croatia were reclassified from Level 2 into Level 1 because credit institutions in the country started to list prices at Bloomberg, and quoted market price was used as the valuation technique instead of a discounted cash flow.

On 30 June 2016, 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.

In the past reporting periods, this investment was valued at acquisition costs and was not presented in the fair value hierarchy table.

On 30 June 2016, Equity Instruments: Corporate Shares were classified within Level 1 of the fair value hierarchy, and quoted market price was used as the valuation technique.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

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

Bank	Jun 30, 2016			Dec 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets available for sale:						
Debt instruments:						
Listed debt instruments:						
Bonds of the Ministry of Finance of the Republic of Croatia	823,268	-	-	644,532	-	-
Treasury bills of the Ministry of finance of the Republic of Croatia	1,544,542	-	-	-	1,418,963	-
Accrued interest	15,662	-	-	13,862	-	-
Unlisted debt instruments:						
Corporate bonds	-	-	487	-	-	-
Accrued interest	-	-	64	-	-	-
Total debt instruments	2,383,472	-	551	658,394	1,418,963	-
Equity instruments:						
Listed equity instruments:						
Corporate shares	8,203	-	-	-	-	-
Unlisted equity instruments:						
Investment in shares of foreign companies	-	27	-	-	26	-
Investment in financial institutions shares	-	161	-	-	161	-
Shares of foreign financial institutions – EIF	-	25,661	-	-	24,420	-
Corporate shares	-	-	-	-	-	-
Total equity instruments	8,203	25,849	-	-	24,607	-
Investments in investment funds:						
Shares classified as assets available for sale	1,012,548	-	-	728,778	-	-
Total investments in investment funds	1,012,548	-	-	728,778	-	-
Total assets available for sale	3,404,223	25,849	551	1,387,172	1,443,570	-

On 30 June 2016, Debt Instruments: Treasury Bills of the Ministry of Finance of the Republic of Croatia were reclassified from Level 2 into Level 1 because credit institutions in the country started to list prices at Bloomberg, and quoted market price was used as the valuation technique instead of a discounted cash flow.

On 30 June 2016, 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.

In the past reporting periods, this investment was valued at acquisition costs and was not presented in the fair value hierarchy table.

On 30 June 2016, Equity Instruments: Corporate Shares were classified within Level 1 of the fair value hierarchy, and quoted market price was used as the valuation technique.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

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

17.1. Fair value of financial assets and financial liabilities carried at amortized cost

The Managing Board estimates that their carrying amounts of financial assets and financial liabilities carried at amortized cost are a reasonable approximation of fair value. The fair value of bonds payable that is determined by using adjusted observable prices is presented in Note 13.

18. 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 equity 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 Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

18. Reporting by segments (continued)

Jun 30, 2016	Banking activities	Insurance activities	Other activities	Unallocated	Total
Net interest income	199,953	837	-	-	200,790
Net fee income	12,601	618	488	-	13,707
Net income/(expenses) from financial operations	(10,816)	23	2	-	(10,791)
Net premiums earned	-	3,257	-	-	3,257
Other income	3,547	33	148	(156)	3,572
Income from operating activities	205,285	4,768	638	(156)	210,535
Operating costs	(77,050)	(2,680)	(529)	156	(80,103)
Impairment loss and provisions	(21,000)	33	9	-	(20,958)
Expenses for insured cases	-	(1,509)	-	-	(1,509)
Net change in provisions	-	57	-	-	57
Other expenses	-	(344)	-	-	(344)
Operating expenses	(98,050)	(4,443)	(520)	156	(102,857)
Profit/(loss) before income tax	107,235	325	118	-	107,678
Income tax	-	-	-	-	-
Profit/(loss) for the year	107,235	325	118	-	107,678
Assets of segment	25,995,550	48,605	697	(36,659)	26,008,193
Total assets	25,995,550	48,605	697	(36,659)	26,008,193
Liabilities of segment	16,212,225	9,635	71	(31)	16,221,900
Total equity	9,783,325	1,469	326	1,173	9,786,293
Total liabilities and total equity	25,995,550	11,104	397	1,142	26,008,193

Intra-group transactions are presented under "Unallocated".

For the purposes of this Note, Net income/(expense) from financial activities is reported as an income item, regardless the actual realization, to enable comparison of the amounts stated in the Statement of profit or loss and other comprehensive income.

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

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

18. Reporting by segments (continued)

Jun 30, 2015	Banking activities	Insurance activities	Other activities	Unallocated	Total
Net interest income	191,552	662	-	-	192,214
Net fee income	7,789	667	432	-	8,888
Net income/(expenses) from financial operations	8,914	(5)	(8)	-	8,901
Net premiums earned	-	2,810	-	-	2,810
Other income	2,494	39	141	(151)	2,523
Income from operating activities	210,749	4,173	565	(151)	215,336
Operating costs	(63,424)	(2,455)	(592)	151	(66,320)
Impairment loss and provisions	(83,372)	19	4	-	(83,349)
Expenses for insured cases	-	(479)	-	-	(479)
Net change in provisions	-	(605)	-	-	(605)
Other expenses	-	(93)	-	-	(93)
Operating expenses	(146,796)	(3,613)	(588)	151	(150,846)
Profit/(loss) before income tax	63,953	560	(23)	-	64,490
Income tax	-	-	-	-	-
Profit/(loss) for the year	63,953	560	(23)	-	64,490
Dec 31, 2015					
Assets of segment	25,540,776	48,043	612	(36,659)	25,552,772
Total assets	25,540,776	48,043	612	(36,659)	25,552,772
Liabilities of segment	15,878,329	9,828	103	(32)	15,888,228
Total equity	9,662,447	716	209	1,172	9,664,544
Total liabilities and total equity	25,540,776	10,544	312	1,140	25,552,772

Intra-group transactions are presented under "Unallocated".

Notes to the Consolidated Interim Condensed Financial Statements include
significant accounting policies and other explanations
for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

19. 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 Bank has identified own funds as a manageable capital category.

Own funds have to be, at every moment, at least at the level of share capital or at the level that ensures that the capital adequacy ratio is at least 8% and that it is sufficient for covering capital requirements regarding business risks.

Own funds consist of original own funds (Tier 1) and additional own funds (Tier 2), and are calculated in accordance with bank regulations in the Republic of Croatia.

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

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

The calculation of the capital adequacy ratio is performed in line with the regulations prescribed for the banks in the Republic of Croatia and does not significantly differ from international banking practice.

	Group		Bank	
	Jun 30, 2016	Dec 31, 2015	Jun 30, 2016	Dec 31, 2015
Original own funds – Tier 1	9,716,441	9,609,800	9,715,998	9,608,763
Additional own funds – Tier 2	296,752	302,203	296,752	302,203
Total own funds	10,013,193	9,912,003	10,012,750	9,910,966
Risk weighted assets	13,977,857	12,798,794	14,009,044	12,830,126
Capital requirements for currency risk	677,114	696,133	665,065	681,095
Total capital requirements	14,654,971	13,494,927	14,674,109	13,511,221
	%	%	%	%
Capital ratio (Tier 1)	66.30	71.21	66.21	71.12
Capital adequacy ratio	68.33	73.45	68.23	73.35
	HRK '000	HRK '000	HRK '000	HRK '000
Own funds needed for ensuring capital adequacy according to regulatory requirements	1,172,398	1,079,594	1,173,929	1,080,898

Minimum capital adequacy ratio as of the reporting date, i.e. 30th June 2016 was 8% (31 December 2015: 8%).

Notes to the Consolidated Interim Condensed Financial Statements include
significant accounting policies and other explanations
for the period 1 January – 30 June 2016 (continued)
(All amounts are expressed in HRK thousand)

19. Capital management (continued)

Due to the extensive changes in the existing support application for the Bank's operations, the Managing Board has prolonged the transitional period for the implementation and testing of new applications and the use will begin with respect to the first reporting period after the implementation of the software solution for the calculation of the adequacy ratio of own funds. Until then, the capital adequacy and exposure calculations will be made in the existing manner.

The Managing Board of the Group does not expect any adverse effects on the level of capital adequacy as a result of application of the new regulations for credit institutions, taking into account that the Bank's capital adequacy ratio as of 30 June 2016 was 9 times higher than the prescribed one. This was primarily due to the model of operation and its orientation to the lending operations.

20. Events after the reporting period date

20.1 Raising of funds

On 11 July 2016, HBOR and the European Investment Bank (EIB) concluded the Finance Contract in the amount of EUR 250,000 thousand to support the projects of local small and medium-sized enterprises (SMEs). The loan will contribute to the implementation of projects in the areas of industry services, tourism and other priority sectors. This loan contributes also to the EIB "Jobs for Youth Initiative" whereby EIB and HBOR additionally support final beneficiaries if they can document that their investment project financed under the facility has also contributed to the creation of youth employment.

This Contract is part of the EUR 800,000 thousand million frameworks for the financing of small and medium-sized companies and mid-cap companies signed between HBOR and EIB on 24 March 2014 and is the second part of a total EUR 500,000 thousand credit line for SMEs aimed at sustaining the country's economic recovery after several years of recession. The first EUR 250,000 thousand tranche was signed in 2014.

20.2 Amortised repayment bonds

After the reporting period date, on 11 July 2016, the Bank made the final payment under the long-term bonds issued with amortised repayment of HRK 235,274 thousand, interest included.

According to the Agreement between HBOR and Deutsche Bank AG London (as lead manager), HBOR issued bonds on 11 July 2006 of EUR 150,000 thousand with a maturity period of 10 years and a fixed interest rate of 4.807% and amortized repayment in the period from 2012 to 2016.

Appendix - financial performance of the HKO Group
Statement of Profit or Loss and Other Comprehensive Income
for the period 1 January – 30 June (unaudited)
(All amounts are expressed in HRK thousand)

	Jun 30, 2016	Jun 30, 2015
Premium earned		
Gross premium written	5,956	5,836
Premium impairment allowance originated and reserved on collection	-	20
Gross outward reinsurance premium	(2,474)	(2,717)
Net premium written	3,482	3,139
Changes in the gross unearned premium reserve	84	(246)
Changes in the gross unearned premium reserve, reinsurer's share	(309)	(63)
Net premium earned	3,257	2,830
Fee and commission income	1,106	1,099
Net investment income	855	644
Other operating income	25	29
Net income	5,243	4,602
Gross expense for returned premiums	(772)	(191)
Reinsurer's share	428	98
Gross reserve for returned premiums	(22)	-
Reinsurer's share	(21)	-
Net expense and reserve for returned premiums	(387)	(93)
Claims incurred	(1,607)	(886)
Claims incurred, reinsurer's share	98	407
Change in the claims provision	(515)	(741)
Change in the claims provision, reinsurer's share	615	136
Net claims incurred	(1,409)	(1,084)
Marketing and provision expenses	(352)	(369)
Administrative expenses	(2,632)	(2,439)
Other operating expenses	(27)	(85)
Net exchange differences other than those on financial instruments	7	5
Profit before income tax	443	537
Income tax	-	-
Profit/(loss) for the year	443	537
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Gains on revaluation of financial assets available for sale	968	504
Decrease in the fair value of financial assets available for sale	(270)	(383)
Transfer of realized gains on asset available for sale to statement of profit or loss	(163)	(145)
Deferred tax	(107)	5
Total items that may be reclassified subsequently to profit or loss:	428	(19)
Other comprehensive income after income tax	428	(19)
Total comprehensive income after income tax	871	518
Attributable to:		
Equity holders of the parent	871	518

Appendix - financial performance of the HKO Group
Statement of Financial Position as of (unaudited)
(All amounts are expressed in HRK thousand)

	Jun 30, 2016	Dec 31, 2015
Assets		
Non-current assets		
Property and equipment	102	148
Intangible assets	12	9
Held to maturity investments	1,421	1,451
Deferred tax	281	230
Total non-current assets	1,816	1,838
Current assets		
Investments available for sale	39,366	37,993
Investments at fair value through profit or loss	4,494	3,707
Deposits with banks	1,028	3,047
Receivables from insurance operations	1,414	1,133
Other receivables	200	164
Cash and cash equivalents	452	242
Total current assets	46,954	46,286
Total assets	48,770	48,124
Equity and liabilities		
Equity		
Share capital	37,500	37,500
Accumulated losses	(148)	(1,184)
Other reserves	1,302	874
Profit for the year	443	1,036
Total equity	39,097	38,226
Technical provisions		
Gross technical provisions	15,280	14,827
Technical provisions, reinsurer's share	(8,441)	(8,156)
	6,839	6,671
Current liabilities		
Liabilities from insurance operations	1,319	1,603
Other liabilities	1,515	1,624
Total liabilities	2,834	3,227
Total equity and liabilities	48,770	48,124

Appendix - financial performance of the HKO Group
Statement of Cash Flows
for the period 1 January – 30 June (unaudited)
(All amounts are expressed in HRK thousand)

	Jun 30, 2016	Jun 30, 2015
Operating activities		
Profit before income tax	443	537
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>		
Depreciation	36	94
Impairment loss and provisions	(42)	(24)
Income tax	-	-
Accrued interest	15	172
<i>Operating profit before working capital changes</i>	452	779
Changes in operating assets and liabilities:		
Net decrease in deposits with other banks	2,000	11,920
Net realized (gain) on assets available for sale	(164)	(145)
Decrease of discount in assets available for sale and assets held to maturity	201	71
Net gain/(losses) on financial assets at fair value through profit or loss	(89)	(19)
Premium receivables	(281)	106
Net decrease/(increase) in other assets	(192)	(76)
Net decrease of assets and liabilities from insurance operations	(284)	888
Net increase in technical provisions	169	914
Net (decrease) in other liabilities	(69)	27
Net cash provided by operating activities	1,743	14,465
Investment activities		
Net (purchase) of financial assets at fair value through profit or loss	(4,570)	(18,072)
Net sale of financial assets at fair value through profit or loss	3,821	2,742
Net (purchase) of assets available for sale	(2,796)	(1,125)
Net sale of assets available for sale	1,758	2,221
(Purchase) of assets held to maturity	-	-
Collection of assets held to maturity when due	-	-
Net (purchase) of property, plant and equipment and intangible assets	23	-
Net cash (used in) investment activities	(1,764)	(14,234)
Effect of foreign currency to cash and cash equivalents		
Net foreign exchange	231	183
Net effect	231	183
Net increase in cash and cash equivalents	210	414
Balance as of 1 January	242	133
Net increase in cash	210	414
Balance as of 30 June	452	547

Appendix - financial performance of the HKO Group
Statement of Changes in Equity
for the period 1 January – 30 June (unaudited)
(All amounts are expressed in HRK thousand)

	Share capital	Accumulated losses	Other reserves	Profit/(loss) for the year	Total equity attributable to the equity holders of the Company	Total equity
Balance as of 1 January 2015	37,500	(2,068)	706	884	37,022	37,022
Profit for the year	-	-	-	537	537	537
Other comprehensive income	-	-	(19)	-	(19)	(19)
Total comprehensive income	-	-	(19)	537	518	518
Transfer of profit 2014 to retained earnings	-	884	-	(884)	-	-
Balance as of 30 June 2015	37,500	(1,184)	687	537	37,540	37,540
Balance as of 1 January 2016	37,500	(1,184)	874	1,036	38,226	38,226
Profit for the year	-	-	-	443	443	443
Other comprehensive income	-	-	428	-	428	428
Total comprehensive income	-	-	428	443	871	871
Transfer of profit 2015 to retained earnings	-	1,036	-	(1,036)	-	-
Balance as of 30 June 2016	37,500	(148)	1,302	443	39,097	39,097