

CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

**Unaudited Consolidated Interim Condensed Financial Statements
for the Period 1 January – 31 March 2017**

Zagreb, May 2017

Contents

	Page
Statement of Persons Responsible for Consolidated Interim Condensed Financial Statements	3
Unaudited Consolidated Interim Condensed Financial Statements of the Group:	4
Statement of Profit or Loss	4
Statement of Profit or Loss and Other Comprehensive Income	5
Statement of Financial Position	6
Statement of Cash Flows	7
Statement of Changes in Equity	8
Unaudited Unconsolidated Interim Condensed Financial Statements of the Bank:	9
Statement of Profit or Loss	9
Statement of Profit or Loss and Other Comprehensive Income	10
Statement of Financial Position	11
Statement of Cash Flows	12
Statement of Changes in Equity	13
Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations	14 – 90
Appendix - financial performance of the HKO Group	91 – 94

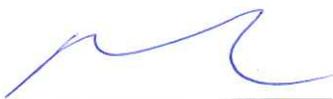
Statement of Persons Responsible for Consolidated Interim Condensed Financial Statements
for the period 1 January – 31 March 2017

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 4 to 90 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.



Tamara Perko, MSc
President of the Management Board



Valerija Marić
**Accounting Division Assistant
Executive Director**



Martina Jus
Member of the Management Board

Zagreb, 15 May 2017



Consolidated Interim Condensed Financial Statements of the Group
Statement of Profit or Loss
for the period 1 January – 31 March (unaudited)
(All amounts are expressed in HRK thousand)

	Notes	2017	2016
Interest income	4	238,911	219,044
Interest expense	5	(108,107)	(114,555)
Net interest income		130,804	104,489
Fee income		7,493	6,125
Fee expense		(884)	(741)
Net fee income		6,609	5,384
Net (losses)/gains on financial operations		(3,284)	(14,157)
Other income		3,957	3,638
		138,086	99,354
Operating expenses	6	(37,148)	(41,803)
Impairment loss and provisions	7	(59,539)	(4,466)
Profit before income tax		41,399	53,085
Income tax		-	-
Profit for the year		41,399	53,085
Attributable to:			
Equity holders of the parent		41,399	53,085

The accompanying selected notes are an integral part of this Statement of Profit or Loss.

Consolidated Interim Condensed Financial Statements of the Group
Statement of Profit or Loss and Other Comprehensive Income
for the period 1 January – 31 March (unaudited)
(All amounts are expressed in HRK thousand)

	2017	2016
Profit for the year	41,399	53,085
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Increase in fair value of assets available for sale	16,552	18,175
Decrease in fair value of assets available for sale	(14,809)	(3,276)
Net foreign exchange on available for sale equity instruments	(408)	(356)
Transfer of realised gains on assets available for sale to statement of profit or loss	(1)	(70)
Transfer of realised losses on assets available for sale to statement of profit or loss	6	-
Deferred tax – other comprehensive income	(1)	(121)
Total items that may be reclassified subsequently to profit or loss	1,339	14,352
Other comprehensive income after income tax	1,339	14,352
Total comprehensive income after income tax	42,738	67,437
Attributable to:		
Equity holders of the parent	42,738	67,437

The accompanying selected notes are an integral part of this Statement of Profit or Loss and Other Comprehensive Income.

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

	Notes	Mar 31, 2017	Dec 31, 2016
Assets			
Cash on hand and due from banks	8	2,590,759	491,246
Deposits with other banks		20,240	23,872
Loans to financial institutions	9	11,366,035	11,889,111
Loans to other customers	10	11,384,130	11,511,194
Financial assets at fair value through profit or loss		285	286
Assets available for sale	11	3,461,447	3,390,034
Assets held to maturity		1,401	1,422
Investments in associates		-	-
Property, plant and equipment and intangible assets		56,415	57,305
Non-current assets held for sale		17,240	17,230
Other assets		7,224	9,122
Total assets		28,905,176	27,390,822
Liabilities			
Deposits		249,709	142,844
Borrowings	12	14,794,558	13,391,749
Bonds payable	13	3,097,108	3,105,569
Other liabilities		678,550	707,952
Total liabilities		18,819,925	17,348,114
Equity			
Founder's capital		6,959,632	6,959,632
Retained earnings and reserves		2,996,968	2,682,127
Other reserves		75,072	73,733
Profit for the year		41,399	314,841
Total equity attributable to equity holders of the parent		10,073,071	10,030,333
Guarantee fund		12,180	12,375
Total equity		10,085,251	10,042,708
Total liabilities and total equity		28,905,176	27,390,822

The accompanying selected notes are an integral part of this Statement of Financial Position.

Consolidated Interim Condensed Financial Statements of the Group
Statement of Cash Flows
for the period 1 January – 31 March (unaudited)
(All amounts are expressed in HRK thousand)

	Note	2017	2016
Operating activities			
Profit before income tax		41,399	53,085
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation		2,092	2,028
Income tax		1	121
Impairment loss and provisions		59,539	4,466
Accrued interest		64,745	37,262
Deferred fees		(4,622)	(768)
<i>Operating profit before working capital changes</i>		163,154	96,194
<i>Changes in operating assets and liabilities:</i>			
Net decrease in deposits with other banks, before provision for impairment		3,669	204,216
Net decrease in loans to financial institutions, before provision for impairment		536,742	360,431
Net decrease/(increase) in loans to other customers, before provision for impairment		44,093	(345,828)
Net (gain) on financial assets at fair value through profit or loss		(3)	(73)
Net realised (gain) on assets available for sale		(1)	(70)
(Increase) of discount in assets available for sale, assets held to maturity and bonds payable		335	(1,179)
Net decrease/(increase) in other assets, before provision for impairment		1,948	(2,000)
Net increase/(decrease) in deposits from banks and companies		106,865	(61,361)
Net (decrease) in other liabilities, before provisions		(25,612)	(37,504)
Net cash provided by operating activities		831,190	212,826
Investment activities			
(Purchase) of financial assets at fair value through profit or loss		-	(1,450)
Sale of financial assets at fair value through profit or loss		-	3,522
Net (purchase) of assets available for sale		(742,168)	(795,010)
Sale of assets available for sale		653,372	553,218
Net (purchase) of property, plant and equipment and intangible assets		(1,187)	(242)
Net cash (used in) investment activities		(89,983)	(239,962)
Financing activities			
Increase in borrowings – withdrawn funds		2,139,927	649,619
(Decrease) in borrowings – repayments of principal		(519,912)	(202,432)
Net cash provided by financing activities		1,620,015	447,187
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		(247,951)	(187,030)
Net effect		(247,951)	(187,030)
Net increase in cash and cash equivalents		2,113,271	233,021
Balance as of 1 January, before provisions		494,325	486,743
Net increase in cash		2,113,271	233,021
Balance as of 31 March, before provisions	8	2,607,596	719,764
Additional note - Operational cash flows			
Interest paid		67,156	74,676
Interest received		225,191	176,503

The accompanying selected notes are an integral part of this Statement of Cash Flows.

2

Consolidated Interim Condensed Financial Statements of the Group
Statement of Changes in Equity
for the period 1 January – 31 March (unaudited)
(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 2016	6,926,632	2,475,862	43,283	206,265	9,652,042
Profit for the year	-	-	-	53,085	53,085
Other comprehensive income	-	-	14,352	-	14,352
Total comprehensive income	-	-	14,352	53,085	67,437
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2015 to retained earnings	-	206,265	-	(206,265)	-
Balance as of 31 March 2016	6,926,632	2,682,127	57,635	53,085	9,719,479
Balance as of 1 January 2017	6,959,632	2,682,127	73,733	314,841	10,030,333
Profit for the year	-	-	-	41,399	41,399
Other comprehensive income	-	-	1,339	-	1,339
Total comprehensive income	-	-	1,339	41,399	42,738
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2016 to retained earnings	-	314,841	-	(314,841)	-
Balance as of 31 March 2017	6,959,632	2,996,968	75,072	41,399	10,073,071

The accompanying selected notes are an integral part of this Statement of Changes in Equity.

Unconsolidated Interim Condensed Financial Statements of the Bank
Statement of Profit or Loss
for the period 1 January – 31 March (unaudited)
(All amounts are expressed in HRK thousand)

	Notes	2017	2016
Interest income	4	238,503	218,633
Interest expense	5	(108,107)	(114,555)
Net interest income		130,396	104,078
Fee income		6,845	5,577
Fee expense		(884)	(741)
Net fee income		5,961	4,836
Net (losses)/gains on financial operations		(3,091)	(14,042)
Other income		2,044	2,033
		135,310	96,905
Operating expenses	6	(35,490)	(39,543)
Impairment loss and provisions	7	(59,569)	(4,450)
Profit before income tax		40,251	52,912
Income tax		-	-
Profit for the year		40,251	52,912
Attributable to:			
Equity holders of the parent		40,251	52,912

The accompanying selected notes are an integral part of this Statement of Profit or Loss.

Unconsolidated Interim Condensed Financial Statements of the Bank
Statement of Profit or Loss and Other Comprehensive Income
for the period 1 January – 31 March (unaudited)
(All amounts are expressed in HRK thousand)

	2017	2016
Profit for the year	40,251	52,912
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Increase in fair value of assets available for sale	15,821	17,499
Decrease in fair value of assets available for sale	(14,070)	(3,220)
Net foreign exchange on available for sale equity instruments	(408)	(356)
Transfer of realised gains on assets available for sale to statement of profit or loss	-	(54)
Total items that may be reclassified subsequently to profit or loss	1,343	13,869
Other comprehensive income after tax	1,343	13,869
Total comprehensive income after tax	41,594	66,781
Attributable to:		
Equity holders of the parent	41,594	66,781

The accompanying selected notes are an integral part of this Statement of Profit or Loss and Other Comprehensive Income.

Unconsolidated Interim Condensed Financial Statements of the Bank
Statement of Financial Position as of (unaudited)

(All amounts are expressed in HRK thousand)

	Notes	Mar 31, 2017	Dec 31, 2016
Assets			
Cash on hand and due from banks	8	2,590,033	490,695
Deposits with other banks		20,240	23,872
Loans to financial institutions	9	11,366,035	11,889,111
Loans to other customers	10	11,384,130	11,511,194
Assets available for sale	11	3,412,796	3,343,574
Investments in subsidiaries		36,124	36,124
Investments in associates		-	-
Property, plant and equipment and intangible assets		56,330	57,216
Non-current assets held for sale		17,240	17,230
Other assets		5,995	5,900
Total assets		28,888,923	27,374,916
Liabilities			
Deposits		249,709	142,844
Borrowings	12	14,794,558	13,391,749
Bonds payable	13	3,097,108	3,105,569
Other liabilities		668,169	696,774
Total liabilities		18,809,544	17,336,936
Equity			
Founder's capital		6,959,632	6,959,632
Retained earnings and reserves		2,995,656	2,682,131
Other reserves		71,660	70,317
Profit for the year		40,251	313,525
Capital		10,067,199	10,025,605
Guarantee fund		12,180	12,375
Total equity		10,079,379	10,037,980
Total liabilities and total equity		28,888,923	27,374,916

The accompanying selected notes are an integral part of this Statement of Financial Position.

Unconsolidated Interim Condensed Financial Statements of the Bank
Statement of Cash Flows
for the period 1 January – 31 March (unaudited)
(All amounts are expressed in HRK thousand)

	Note	2017	2016
Operating activities			
Profit before income tax		40,251	52,912
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation		2,078	2,006
Impairment loss and provisions		59,569	4,450
Accrued interest		64,645	37,210
Deferred fees		(4,622)	(768)
<i>Operating profit before working capital changes</i>		161,921	95,810
<i>Changes in operating assets and liabilities:</i>			
Net decrease in deposits with other banks, before provision for impairment		3,669	204,216
Net decrease in loans to financial institutions, before provision for impairment		536,742	360,431
Net decrease/(increase) in loans to other customers, before provision for impairment		44,093	(345,828)
Net realised (gain) on assets available for sale		-	(54)
(Increase) of discount in assets available for sale and bonds payable		229	(1,279)
Net (increase) in other assets, before provision for impairment		(273)	(1,870)
Net increase/(decrease) in deposits from banks and companies		106,865	(61,361)
Net (decrease) in other liabilities, before provisions		(24,616)	(37,406)
Net cash provided by operating activities		828,630	212,659
Investment activities			
Net (purchase) of assets available for sale		(736,221)	(792,226)
Sale of assets available for sale		650,000	553,000
Net (purchase) of property, plant and equipment and intangible assets		(1,176)	(266)
Net cash (used in) investment activities		(87,397)	(239,492)
Financing activities			
Increase in borrowings – withdrawn funds		2,139,927	649,619
(Decrease) in borrowings – repayments of principal		(519,912)	(202,432)
Net cash provided by financing activities		1,620,015	447,187
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		(248,152)	(187,241)
Net effect		(248,152)	(187,241)
Net increase in cash and cash equivalents		2,113,096	233,113
Balance as of 1 January, before provisions		493,774	486,501
Net increase in cash		2,113,096	233,113
Balance as of 31 March, before provisions	8	2,606,870	719,614
Additional note - Operational cash flows			
Interest paid		67,156	74,676
Interest received		224,578	175,916

The accompanying selected notes are an integral part of this Statement of Cash Flows.

Unconsolidated Interim Condensed Financial Statements of the Bank
Statement of Changes in Equity
for the period 1 January – 31 March (unaudited)
(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 2016	6,926,632	2,476,903	41,182	205,228	9,649,945
Profit for the year	-	-	-	52,912	52,912
Other comprehensive income	-	-	13,869	-	13,869
Total comprehensive income	-	-	13,869	52,912	66,781
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2015 to retained earnings	-	205,228	-	(205,228)	-
Balance as of 31 March 2016	6,926,632	2,682,131	55,051	52,912	9,716,726
Balance as of 1 January 2017	6,959,632	2,682,131	70,317	313,525	10,025,605
Profit for the year	-	-	-	40,251	40,251
Other comprehensive income	-	-	1,343	-	1,343
Total comprehensive income	-	-	1,343	40,251	41,594
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2016 to retained earnings	-	313,525	-	(313,525)	-
Balance as of 31 March 2017	6,959,632	2,995,656	71,660	40,251	10,067,199

The accompanying selected notes are an integral part of this Statement of Changes in Equity.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited)
(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 31 March 2017, the Group had 376 employees (31 March 2016: 360 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 – 31 March 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

1. General information (continued)

1.2. Bank (continued):

Supervisory Board

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

- Zdravko Marić, DSc, Minister of Finance - ex officio President of the Supervisory Board,
- Martina Dalić, DSc, Deputy Prime Minister and Minister of the Economy, Entrepreneurship and Trade – ex officio Vice President of the Supervisory Board,
- Gabrijela Žalac, Minister of Regional Development and EU Funds – ex officio Member of the Supervisory Board,
- Slaven Dobrović, DSc, Minister of Environmental Protection and Energy,
- Gari Cappelli, Minister of Tourism,
- Tomislav Tolušić, Minister of Agriculture,
- Luka Burilović, President of the Croatian Chamber of Economy – ex officio Member of the Supervisory Board,
- Boris Lalovac, MSc, Member of the Croatian Parliament,
- Ivana Ninčević-Lesandrić, Member of the Croatian Parliament ,
- Grozdana Perić, Chairman of the Finance and Central Budget Committee of the Croatian Parliament.

On 27 April 2017, the Government of the Republic of Croatia passed the Decision on Dismissing the Minister of Environmental Protection and Energy, Mr Slaven Dobrović, DSc from his position of Minister of Environmental Protection and Energy. As a consequence of this Decision and pursuant to the Act on HBOR, the term of office of Mr Slaven Dobrović, DSc as a Member of the Supervisory Board of HBOR was terminated that had started by the appointment of Mr Dobrović pursuant to the Decision of the Government of the Republic of Croatia dated 10 November 2016.

Management Board

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

- Tamara Perko, MSc, President of the Management Board and
- Martina Jus, Member of the Management Board.

By the Decision of the Supervisory Board of HBOR of 25 January 2017, the President and Members of the Management Board of HBOR were dismissed from their duties as of 31 January 2017 as follows: Dušan Tomašević from the duty of the President of the Management Board and Martina Jus and Goran Filipić from their duties of members of the Management Board of HBOR.

By the Decision of the Supervisory Board of HBOR of 25 January 2017, Tamara Perko, MSc is appointed the President of the Management Board of HBOR, and Martina Jus the Member of the Management Board of HBOR as of 1 February 2017 until the implementation of procedure for the selection and appointment of members of the Management Board of HBOR pursuant to the Decree on the Criteria for the Implementation of Procedures for Selection and Appointment of Presidents and Members of Management Boards of Companies and Other Legal Entities of Strategic and Special Interest for the Republic of Croatia (Official Gazette Nos. 33/16, 46/16 and 109/16), but for the maximum period of six months.

As of 31 March 2017, there were 360 employees at the Bank (31 March 2016: 346 employees).

Audit Committee

After the termination of the term of office of members of the Supervisory Board, on 4 March 2016 until the day of compiling of these statements, new members of the Audit Committee have not been appointed and the Supervisory Board currently performs its role.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

1. General information (continued)

1.2. Bank (continued):

1.2.1. Activities of the Bank:

The principal activities of the Bank comprise the following:

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

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

2. 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 31 March 2017 have been prepared in accordance with the International Accounting Standard 34 Interim Financial Reporting.

The Consolidated Interim Condensed Financial Statements for the period 1 January to 31 March 2017 are not audited and 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 2016.

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 31 March 2017, the Statement of Profit or Loss for the period 1 January – 31 March 2017, the Statement of Profit or Loss and other Comprehensive Income for the period 1 January – 31 March 2017, the Statement of Cash Flows for the period 1 January – 31 March 2017, the Statement of Changes in Equity for the period 1 January – 31 March 2017, 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 – 31 March 2017 (unaudited) (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 2016 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, but have not been adopted in the European Union yet:*

- 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.
- Annual improvements 2014-2016 - The primary objective of the process is to enhance the quality of standards, by amending existing IFRSs to clarify guidance and wording, or to correct for relatively minor unintended consequences, conflicts or oversights.
The issues included in this cycle are:
 - IFRS 12 Disclosure of Interests in Other Entities (effective for periods beginning on or after 1 January 2017, but have not been adopted in the European Union yet): Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.
This amendment will not affect the Group after the initial application.
 - IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures under Annual Improvements 2014-2016 that are effective for periods beginning on or after 1 January 2018 but have not been adopted in

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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 that have not been adopted in the European Union yet (continued):*

- Annual improvements 2014-2016 (continued)

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

b) *New and amended International Financial Reporting Standards not effective in the reporting period and adopted in the European Union with the assessment of impact on the financial statements:*

- New IFRS 15 Revenue from Contracts with Customers (effective for periods beginning on or after 1 January 2018, adopted in the European Union on 22 September 2016) 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.

- 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, adopted in the European Union on 22 November 2016), 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, de-recognition and hedge accounting in general.

Classification and measurement of financial assets and financial liabilities – all recognised financial assets that are 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.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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 not effective in the reporting period and adopted in the European Union with the assessment of impact on the financial statements (continued):*

- IFRS 9 Financial instruments (continued)

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.

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.

During 2016, the Bank started the IFRS 9 Implementation Project, engaging external consultants.

Based on this project, the following phases are conducted:

- Series of educations for acquainting employees with the IFRS 9 and its requirements
- Gap analysis between the current status and IFRS 9 requirements in the classification and measurement stream:
 - Determine business models
 - Determine characteristics of contracted cash flows
- Gap analysis between the current status and IFRS 9 requirements in the impairment stream,
- Quantitative impact study of the IFRS 9 effects,
- Development of functional specifications for the IT application solution – software implementation,
- Development of the impairment methodology according to the business models of the Bank – development of the model for calculating risk parameters required for expected credit loss calculation as required per IFRS 9.

For the classification and measurement stream, the Bank is considering definitions of the business models and other requirements of the IFRS 9 based on determined gaps and identified activities for bridging the gaps.

For the impairment stream, the Bank is developing the methodology for calculating expected credit loss and modelling the risk parameters with incorporation of necessary parameters for forward looking expectations.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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 not effective in the reporting period and adopted in the European Union with the assessment of impact on the financial statements (continued):

- IFRS 9 Financial instruments (continued)

Quantitative impacts will be identified during 2017. The impact for the impairment stream depends on defined methodology of calculating expected credit losses and risk parameters arising from them.

Simultaneously, adjustments to HBOR's accounting policies and financial reporting processes are being made.

Temporary exemption has been granted to the subsidiary company – the HKO Group – owing to immateriality and will be applied from 1 January 2018 to 1 January 2021, i.e. the start of the implementation of the new insurance contracts Standard, unless otherwise determined by the Croatian Financial Services Supervisory Agency (HANFA).

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:

- 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.
- 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 recognise 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.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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):*

- 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.

- Annual improvements 2014-2016 - The primary objective of the process is to enhance the quality of standards, by amending existing IFRSs to clarify guidance and wording, or to correct for relatively minor unintended consequences, conflicts or oversights.
The issues included in this cycle are:

- IFRS 1 First-time Adoption of International Financial Reporting Standards (effective for periods beginning on or after 1 January 2018, but have not been adopted in the European Union yet): Deleted the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.
- IAS 28 Investments in Associates and Joint Ventures (effective for periods beginning on or after 1 January 2018, but have not been adopted in the European Union yet): Clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- 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 – 31 March 2017 (unaudited) (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):*

- Amendments to IFRS 4 Insurance Contracts - Applying IFRS 9 Financial Instruments with IFRS 4 (effective for periods beginning on or after 1 January 2018, but have not been adopted in the European Union yet) – the Amendments to existing requirements—IFRS 4 *Insurance Contracts*:
 - the „temporary exemption“ - permit entities whose predominant activities are connected with insurance to defer the application of IFRS 9 until 2021; and
 - the „overlay approach“ - permits all issuers of insurance contracts to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued.

Temporary exemption has been granted to the subsidiary company – the HKO Group – owing to immateriality and will be applied from 1 January 2018 to 1 January 2021, i.e. the start of the implementation of the new insurance contracts Standard, unless otherwise determined by the Croatian Financial Services Supervisory Agency (HANFA).

- New interpretation - IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for periods beginning on or after 1 January 2018, but have not been adopted in the European Union yet) – clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
 - If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.
- Amendments to IAS 40 Investment Property—Transfers of investment property (effective for periods beginning on or after 1 January 2018, but have not been adopted in the European Union yet).

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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):

- Amendments to IAS 40 Investment Property (continued)

The amendments in Transfers of Investment Property are:

- Paragraph 57 has been amended to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of evidence in paragraph 57(a) – (d) was designated as non-exhaustive list of examples instead of the previous exhaustive list.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

4. Interest income

Interest income by borrowers:

	Group		Bank	
	Mar 31, 2017	Mar 31, 2016	Mar 31, 2017	Mar 31, 2016
Public sector	27,935	32,868	27,527	32,484
State-owned companies	12,515	8,585	12,515	8,585
Foreign companies	3,286	3,123	3,286	3,123
Domestic companies	91,645	80,738	91,645	80,738
Domestic financial institutions	64,715	74,827	64,715	74,800
Foreign financial institutions	135	21	135	21
Penalty interest	2,235	3,167	2,235	3,167
Other	36,445	15,715	36,445	15,715
	238,911	219,044	238,503	218,633

Interest income by type of facility:

	Group		Bank	
	Mar 31, 2017	Mar 31, 2016	Mar 31, 2017	Mar 31, 2016
Interest on loans				
- financial institutions	66,563	74,991	66,563	74,991
- other customers	161,071	131,731	161,071	131,731
	227,634	206,722	227,634	206,722
Investments in securities	11,138	12,247	10,730	11,863
Deposits	139	75	139	48
	238,911	219,044	238,503	218,633

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 recognised 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 31 March 2017 amounts to HRK 27,260 thousand (1 January to 31 March 2016: HRK 34,804 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 recognised 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 – 31 March 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

5. Interest expense

Interest expense by type of payee:

	Group		Bank	
	Mar 31, 2017	Mar 31, 2016	Mar 31, 2017	Mar 31, 2016
Domestic financial institutions	715	2,660	715	2,660
Foreign financial institutions	107,392	111,895	107,392	111,895
	108,107	114,555	108,107	114,555

Interest expense by type of facility:

	Group		Bank	
	Mar 31, 2017	Mar 31, 2016	Mar 31, 2017	Mar 31, 2016
Borrowings	67,370	70,051	67,370	70,051
Debt securities	40,677	44,504	40,677	44,504
Deposits	60	-	60	-
	108,107	114,555	108,107	114,555

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 – 31 March 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

6. Operating expenses

Operating expenses can be shown as follows:

	Group		Bank	
	Mar 31, 2017	Mar 31, 2016	Mar 31, 2017	Mar 31, 2016
General and administrative expenses:				
Employee expenses	23,226	21,380	22,473	20,536
Depreciation	2,092	2,028	2,078	2,006
Administration expenses	2,932	2,440	2,826	2,369
Material and services	6,055	5,848	5,567	5,487
	34,305	31,696	32,944	30,398
Other expenses:				
Taxes and contributions	99	145	98	144
Other expenses	2,744	9,962	2,448	9,001
	2,843	10,107	2,546	9,145
	37,148	41,803	35,490	39,543

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

	Group		Bank	
	Mar 31, 2017	Mar 31, 2016	Mar 31, 2017	Mar 31, 2016
Changes in claims provisions	(28)	1,268	-	-
Changes in claims provisions, share of reinsurance	49	(603)	-	-
Expenses of insurance operations	21	665	-	-

The most significant part of provisions for losses relates to the IBNR provision, the method of calculation of which was changed as compared to the same period of the previous year. The Bornhuetter-Ferguson method was used for the gross amount of provisions that enable the supervision of development of the subsidiary company's loss by the year of delivery. The reinsurance share is determined in accordance with the valid terms and conditions of reinsurance contracts for the respective year of delivery. Further to this, this provision decreased both in the gross amount and in the reinsurance share in comparison with the same reporting period previous year.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

7. Impairment loss and provisions:

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

	Group		Bank	
	Mar 31, 2017	Mar 31, 2016	Mar 31, 2017	Mar 31, 2016
Impairment losses on cash on hand and due from banks	13,758	2,930	13,758	2,930
Impairment losses on deposits with other banks	(39)	(2,142)	(39)	(2,142)
Impairment losses on loans to financial institutions	(36,458)	(13,013)	(36,458)	(13,013)
Impairment losses on loans to other customers and interest	86,144	16,886	86,144	16,886
Impairment losses on non-current assets held for sale	(10)	(12)	(10)	(12)
Impairment losses on assets available for sale	-	3,815	-	3,815
Impairment losses on other assets	193	251	162	227
Total increase in provision for impairment losses on assets	63,588	8,715	63,557	8,691
Provision for guarantees and commitments	(2,213)	(4,663)	(2,213)	(4,663)
Other provisions	(1,836)	414	(1,775)	422
Total increase/(decrease) in provision for guarantees and commitments and other provisions	(4,049)	(4,249)	(3,988)	(4,241)
Total increase of provisions	59,539	4,466	59,569	4,450

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.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (continued)

(All amounts are expressed in HRK thousand)

8. Cash on hand and due from banks

	Group		Bank	
	Mar 31, 2017	Dec 31, 2016	Mar 31, 2017	Dec 31, 2016
Account with the Croatian National Bank	923,473	186,167	923,473	186,167
Due from domestic banks in foreign currency	1,431	1,626	1,431	1,626
Due from foreign banks in foreign currency	1,681,966	305,981	1,681,966	305,981
Due from domestic banks in HRK	726	551	-	-
	<u>2,607,596</u>	<u>494,325</u>	<u>2,606,870</u>	<u>493,774</u>
Provisions for impairment losses	(16,837)	(3,079)	(16,837)	(3,079)
	<u>2,590,759</u>	<u>491,246</u>	<u>2,590,033</u>	<u>490,695</u>

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

9. Loans to financial institutions

	Group		Bank	
	Mar 31, 2017	Dec 31, 2016	Mar 31, 2017	Dec 31, 2016
Long-term loans under loan programmes	11,458,328	11,918,947	11,458,328	11,918,947
Short-term loans and reverse repo transactions	284,316	362,489	284,316	362,489
Accrued interest	11,866	37,363	11,866	37,363
Deferred recognition of loan origination fees	(63,666)	(66,371)	(63,666)	(66,371)
	<u>11,690,844</u>	<u>12,252,428</u>	<u>11,690,844</u>	<u>12,252,428</u>
Provisions for impairment losses	(324,809)	(363,317)	(324,809)	(363,317)
	<u>11,366,035</u>	<u>11,889,111</u>	<u>11,366,035</u>	<u>11,889,111</u>

Loans to financial institutions by purpose of the loan programmes:

	Group		Bank	
	Mar 31, 2017	Dec 31, 2016	Mar 31, 2017	Dec 31, 2016
Loan programme for reconstruction and development of the economy	2,527,141	2,775,682	2,527,141	2,775,682
Export financing	3,355,716	3,466,148	3,355,716	3,466,148
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	1,534,678	1,602,331	1,534,678	1,602,331
Loan programme for small and medium-sized enterprises	4,031,501	4,064,711	4,031,501	4,064,711
Loan programme for war-torn and demolished housing and business facilities	9,292	10,075	9,292	10,075
Other	284,316	362,489	284,316	362,489
Accrued interest	11,866	37,363	11,866	37,363
Deferred recognition of loan fees	(63,666)	(66,371)	(63,666)	(66,371)
	<u>11,690,844</u>	<u>12,252,428</u>	<u>11,690,844</u>	<u>12,252,428</u>
Provisions for impairment losses	(324,809)	(363,317)	(324,809)	(363,317)
	<u>11,366,035</u>	<u>11,889,111</u>	<u>11,366,035</u>	<u>11,889,111</u>

Average interest rates for total loans to financial institutions, at year level, are stated at 0.95% (1 January to 31 March 2016: 1.17%) and for loans under HBOR loan programmes excluding the liquidity reserve at 0.94% (1 January to 31 March 2016: 1.16%).

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 284,316 thousand (31 December 2016: HRK 232,489 thousand). The above placements are collateralised by securities in the amount of HRK 302,587 thousand (31 December 2016: HRK 247,026 thousand).

In the reporting period, provisions for loans to financial institutions in the amount of HRK 2,388 thousand were charged and provisions in the amount of HRK 38,846 thousand were reversed.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (continued)

(All amounts are expressed in HRK thousand)

10. Loans to other customers

	Group		Bank	
	Mar 31, 2017	Dec 31, 2016	Mar 31, 2017	Dec 31, 2016
Domestic companies	10,472,804	10,463,392	10,472,804	10,463,392
State-owned companies	1,149,476	1,183,103	1,149,476	1,183,103
Public sector	1,528,965	1,528,564	1,528,965	1,528,564
Foreign companies	223,507	237,429	223,507	237,429
Non-profit institutions	1,712	1,712	1,712	1,712
Other	695,119	712,400	695,119	712,400
Accrued interest	84,005	83,423	84,005	83,423
Deferred recognition of loan origination fees	(116,738)	(119,328)	(116,738)	(119,328)
	<u>14,038,850</u>	<u>14,090,695</u>	<u>14,038,850</u>	<u>14,090,695</u>
Provisions for impairment losses	<u>(2,654,720)</u>	<u>(2,579,501)</u>	<u>(2,654,720)</u>	<u>(2,579,501)</u>
	<u>11,384,130</u>	<u>11,511,194</u>	<u>11,384,130</u>	<u>11,511,194</u>

Loans to other customers by loan programmes:

	Group		Bank	
	Mar 31, 2017	Dec 31, 2016	Mar 31, 2017	Dec 31, 2016
Loan programme for reconstruction and development of the economy	4,001,550	4,123,892	4,001,550	4,123,892
Export financing	4,762,254	4,687,115	4,762,254	4,687,115
Loan programme for reconstruction and development of infrastructure in the	3,093,957	3,075,022	3,093,957	3,075,022
Loan programme for small and medium-sized enterprises	2,133,496	2,158,612	2,133,496	2,158,612
Other	80,326	81,959	80,326	81,959
Accrued interest	84,005	83,423	84,005	83,423
Deferred recognition of loan origination fees	(116,738)	(119,328)	(116,738)	(119,328)
	<u>14,038,850</u>	<u>14,090,695</u>	<u>14,038,850</u>	<u>14,090,695</u>
Provisions for impairment losses	<u>(2,654,720)</u>	<u>(2,579,501)</u>	<u>(2,654,720)</u>	<u>(2,579,501)</u>
	<u>11,384,130</u>	<u>11,511,194</u>	<u>11,384,130</u>	<u>11,511,194</u>

Average interest rates for total loans to other customers, at year level, are stated at 2.29% (1 January to 31 March 2016: 2.05%).

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 164,903 thousand were charged and provisions in the amount of HRK 78,759 thousand were reversed.

Value adjustment of loans to other customers was reduced by the amount of HRK 39 thousand relating to HRK 38 thousand of principal written off due to pre-bankruptcy settlement proceedings and HRK 1 thousand of interest written off due to sale of receivables.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

11. Assets available for sale

	Group		Bank	
	Mar 31, 2017	Dec 31, 2016	Mar 31, 2017	Dec 31, 2016
Debt instruments:				
Listed debt instruments:				
Bonds of the Ministry of Finance of the Republic of Croatia	899,526	925,887	857,540	884,914
Financial institution bonds	898	910	-	-
Corporate bonds	1,155	1,161	-	-
Treasury bills of the Ministry of Finance of the Republic of Croatia	1,603,266	1,500,420	1,603,266	1,500,420
Accrued interest	11,423	14,495	10,923	13,890
	2,516,268	2,442,873	2,471,729	2,399,224
Unlisted debt instruments:				
Corporate bonds	495	502	495	502
Accrued interest	115	99	115	99
	610	601	610	601
Equity instruments:				
Listed equity instruments:				
Investments in companies' shares	13,336	10,938	13,336	10,938
	13,336	10,938	13,336	10,938
Unlisted equity instruments:				
Investments in shares of foreign legal entities	32	32	32	32
Investments in financial institutions shares	161	161	161	161
Shares of foreign financial institutions – EIF	25,407	25,815	25,407	25,815
Investments in companies' shares	16,725	16,725	16,725	16,725
Provision for impairment losses	(16,725)	(16,725)	(16,725)	(16,725)
	25,600	26,008	25,600	26,008
Investments in investment funds:				
Shares classified as assets available for sale	905,633	909,614	901,521	906,803
	905,633	909,614	901,521	906,803
Balance	3,461,447	3,390,034	3,412,796	3,343,574

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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 (%)	Mar 31, 2017	Group Dec 31, 2016	Mar 31, 2017	Bank Dec 31, 2016	
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	47,277	48,602	46,291	47,588
	RHMF-O -227E	22.7.2011.	22.7.2022.	6.5	171,165	172,432	171,165	172,432
	RHMF-O-247E	10.7.2013.	10.7.2024.	5.75	17,608	17,802	12,421	12,558
	RHMF-O-203E	5.3.2010.	5.3.2020.	6.5	852	875	-	-
Bonds of the Republic of Croatia in foreign currency:								
	XS0645940288	8.7.2011.	9.7.2018.	5.875	55,713	57,370	55,713	57,370
	XS0776179656	27.4.2012.	27.4.2017.	6.25	13,885	14,529	13,885	14,529
	XS1117298916	11.3.2015.	11.3.2025.	3.0	53,009	53,248	53,009	53,248
Bonds of the Republic of Croatia in HRK:								
	RHMF-O-172A	8.2.2007.	8.2.2017.	4.75	-	100,995	-	100,410
	RHMF-O-187A	10.7.2013.	10.7.2018.	5.25	42,164	42,406	36,879	37,094
	RHMF-O-17BA	25.11.2010.	25.11.2017.	6.25	159,838	161,910	155,170	157,185
	RHMF-O-203A	5.3.2010.	5.3.2020.	6.75	2,998	3,003	-	-
	RHMF-O-257A	9.7.2015.	9.7.2025.	4.5	9,352	9,335	-	-
	RHMF-O-26CA	14.12.2015.	14.12.2026.	4.25	41,918	41,909	33,151	33,089
	RHMF-O-217A	8.7.2016.	8.7.2021.	2.75	201,907	201,471	199,852	199,411
	RHMF-O-222A	7.2.2017.	7.2.2022.	2.25	70,289	-	70,289	-
	RHMF-O-282A	7.2.2017.	7.2.2028.	2.875	11,551	-	9,715	-
Financial institution bonds in HRK:								
	RIBA-O-17BA	23.11.2012.	23.11.2017.	5.88	516	522	-	-
Financial institution bonds indexed to foreign currency:								
	RIBA-O-177A	18.7.2011.	18.7.2017.	6.5	382	388	-	-
Corporate bonds in HRK:								
	JDGL-O-20CA	21.12.2015.	21.12.2020.	5.81	770	770	-	-
Corporate bonds indexed to foreign currency:								
	JRLN-O-17AA	24.10.2012.	24.10.2017.	6.5	385	391	-	-
Treasury bills in HRK up to 91 days				0.304	49,998	-	49,998	-
Treasury bills in HRK up to 182 days				0.569	49,924	-	49,924	-
Treasury bills in HRK up to 281 days				0.737	29,853	-	29,853	-
Treasury bills in HRK up to 364 days				0.451 – 0.852	1,065,468	1,087,406	1,065,468	1,087,406
Treasury bills in foreign currency up to 455 days				0.437	408,023	413,014	408,023	413,014
Accrued interest					11,423	14,495	10,923	13,890
					2,516,268	2,442,873	2,471,729	2,399,224
Unlisted debt instruments:								
Corporate bonds indexed to foreign currency:								
	LNGU-O-31AE	24.7.2015.	15.10.2031.	4.5	495	502	495	502
Accrued interest					115	99	115	99
					610	601	610	601

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

11. Assets available for sale (continued)

The following text contains investment breakdown (continued):

	Mar 31, 2017	Group Dec 31, 2016	Mar 31, 2017	Bank Dec 31, 2016
Equity instruments:				
Listed equity instruments:				
Investments in companies' shares	13,336	10,938	13,336	10,938
	13,336	10,938	13,336	10,938
Unlisted equity instruments:				
Investments in shares of foreign legal entities in foreign currency	32	32	32	32
Investments in financial institutions' shares	161	161	161	161
Investments in shares of foreign financial institutions in foreign currency - EIF	25,407	25,815	25,407	25,815
Investments in companies' shares	16,725	16,725	16,725	16,725
Provisions for impairment losses	(16,725)	(16,725)	(16,725)	(16,725)
	25,600	26,008	25,600	26,008
Investments in investments funds in the Republic of Croatia	905,633	909,614	901,521	906,803
Total	3,461,447	3,390,034	3,412,796	3,345,574

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (continued)

(All amounts are expressed in HRK thousand)

12. Borrowings

	Group		Bank	
	Mar 31, 2017	Dec 31, 2016	Mar 31, 2017	Dec 31, 2016
Balance as of 1 January	13,378,057	11,453,796	13,378,057	11,453,796
New borrowings	2,139,927	3,730,867	2,139,927	3,730,867
Repayments	(519,912)	(1,730,849)	(519,912)	(1,730,849)
Net foreign exchange gains/(losses)	(216,705)	(75,757)	(216,705)	(75,757)
	<u>14,781,367</u>	<u>13,378,057</u>	<u>14,781,367</u>	<u>13,378,057</u>
Accrued interest	62,878	64,018	62,878	64,018
Deferred recognition of borrowing origination fees	(49,687)	(50,326)	(49,687)	(50,326)
Balance	<u>14,794,558</u>	<u>13,391,749</u>	<u>14,794,558</u>	<u>13,391,749</u>

The bank is subject to various financial clauses from the Contract. As of 31 March 2017 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	Net book value	Fair value	Net book value
		Mar 31, 2017	Mar 31, 2017	Dec 31, 2015	Dec 31, 2015
Bonds EUR 250 million	5.076	1,871,499	1,859,325	1,915,899	1,888,837
Bonds EUR 150 million	6.37	1,242,174	1,104,360	1,270,695	1,121,261
Accrued interest		-	133,850	-	95,932
Deferred recognition of bond payable origination fees		-	(427)	-	(461)
		<u>3,113,673</u>	<u>3,097,108</u>	<u>3,186,594</u>	<u>3,105,569</u>

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 – 31 March 2017 (unaudited) (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 31 March 2017 amounted to HRK 6,117,703 thousand, increased by 1% compared with the beginning of the year. Overview of guarantees and commitments:

Group and Bank	Mar 31, 2017	Dec 31, 2016
Guarantees issued in HRK	33,676	32,409
Guarantees issued in foreign currency	1,969,846	2,007,578
Undrawn loans	4,062,532	3,978,340
EIF – subscribed, not called up capital	47,606	48,370
Open letters of credit in foreign currency	3,704	
Other irrevocable contingent liabilities	339	339
	6,117,703	6,067,036
Provisions for guarantees and commitments	(72,792)	(75,103)
	6,044,911	5,991,933

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 83%, collateralised by the guarantees, deposits and bank guarantees or the liability was taken over by the Republic of Croatia. Open letters of credit are fully 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 – 31 March 2017 (unaudited) (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 31 March 2017 and 31 December 2016, and income and expense for the period 1 January to 31 March 2017 and for the period 1 January to 31 March 2016 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
	Mar 31, 2017	Mar 31, 2017	Dec 31, 2016	Dec 31, 2016
Owner	3,017,952	211,622	3,193,565	153,374
Government funds, executive authorities and agencies	1,071,862	12,078	1,087,460	14,214
State-owned companies	1,154,772	1	1,193,668	2
Associates	5	-	6	-
Other intra-group transactions	-	-	-	-
Key management personnel	4,165	-	4,289	-
Total	5,248,756	223,701	5,478,988	167,590

Group	Income	Expense	Income	Expense
	Mar 31, 2017	Mar 31, 2017	Mar 31, 2016	Mar 31, 2016
Owner	21,016	59	27,191	4,995
Government funds, executive authorities and agencies	6,332	98	4,442	123
State-owned companies	13,006	81	14,179	6,873
Associates	68	-	123	-
Other intra-group transactions	-	17	-	18
Key management personnel	33	-	43	-
Total	40,455	255	45,978	12,009

1

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

15. Related-party transactions (continued)

a) Related-party transactions (continued)

Bank	Exposure	Liabilities	Exposure	Liabilities
	Mar 31, 2017	Mar 31, 2017	Dec 31, 2016	Dec 31, 2016
Owner	3,017,952	211,622	3,193,565	153,374
Government funds, executive authorities and agencies	1,027,950	11,969	1,044,382	14,079
State-owned companies	1,154,376	-	1,193,271	-
Subsidiary companies	36,124	-	36,124	-
Associates	5	-	6	-
Key management personnel	3,891	-	4,000	-
Total	5,240,298	223,591	5,471,348	167,453

Bank	Income	Expense	Income	Expense
	Mar 31, 2017	Mar 31, 2017	Mar 31, 2016	Mar 31, 2016
Owner	21,016	59	27,191	4,995
Government funds, executive authorities and agencies	5,910	2	4,011	3
State-owned companies	13,001	51	14,174	6,856
Subsidiary companies	-	-	-	-
Associates	68	-	123	-
Key management personnel	31	-	41	-
Total	40,026	112	45,540	11,854

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 – 31 March 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

15. Related-party transactions (continued)

b) Collateral received

	Group		Bank	
	Mar 31, 2017	Dec 31, 2016	Mar 31, 2017	Dec 31, 2016
The Republic of Croatia	2,998,139	3,092,258	2,919,607	3,007,698
State agencies	545,949	603,215	545,949	603,215
Total	3,544,089	3,695,473	3,465,557	3,610,913

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 2,831 thousand (1 January to 31 March 2016: HRK 1,962 thousand), and for the Bank amounted to HRK 2,641 thousand (1 January to 31 March 2016: HRK 1,639 thousand).

In the reporting period, remuneration for the work of the members of the Supervisory Board for the Group amounted to HRK 108 thousand (1 January to 31 March 2016: HRK 74 thousand) and for the Bank amounted to HRK 40 thousand (1 January to 31 March 2016: HRK 49 thousand) and it relates to members of the supervisory boards at associates and subsidiaries who were appointed by HBOR.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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 and reports about them to the bodies in charge. 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. The mentioned risks are managed on the basis of policies, procedures, methodologies, regulations, and systems, limits and decisions/conclusions of the Supervisory Board, the Management Board and the risk management committees.

The Bank has a functionally and organizationally separate and independent organizational unit for the control of business risks, which is directly responsible to the Management Board. This organisational unit is responsible for definition, evaluation or measurement, and control of 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, assessment and measurement of risks, developing risk management policies, procedures and methodologies, supervising and monitoring their application, recommending and controlling the accepted exposure limits, giving suggestions and recommendations for adequate management of exposure to credit and non-credit risks as well as reporting to the Management 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, analyses and stress tests carried out are presented at the meetings of the risk management committees, the Management Board and the Supervisory Board. For the purpose of monitoring and control of risks, systems of limits are introduced for the management of credit risk, liquidity risk, interest rate risk in the Bank's book and foreign exchange risk. The Bank implements the sensitivity analyses and scenario analyses, provided that one or several risk factors are changed in regular or stressful circumstances, and their results are reported to the competent bodies of HBOR. Systems of proactive risk management are continuously developed for the purpose of reducing possible future risks.

The Management 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 Management 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, ordinances 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, ordinances, 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 – 31 March 2017 (unaudited) (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 also contains 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 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 amount and collateral value.

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 31 March 2017, the highest credit exposure of the Group and the Bank to one debtor equalled HRK 2,900,304 thousand (as of 31 December 2016: HRK 3,147,235 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 – 31 March 2017 (unaudited) (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
	Mar 31, 2017	Dec 31, 2016	Mar 31, 2017	Dec 31, 2016
Assets				
Cash on hand and due from banks	2,590,754	491,243	2,590,028	490,692
Deposits with other banks	20,240	23,872	20,240	23,872
Loans to financial institutions	11,366,035	11,889,111	11,366,035	11,889,111
Loans to other customers	11,384,130	11,511,194	11,384,130	11,511,194
Financial assets at fair value through profit or loss	285	286	-	-
Assets available for sale	3,422,511	3,353,086	3,373,860	3,306,628
Assets held to maturity	1,401	1,422	-	-
Other assets	3,382	6,249	2,336	3,079
Total	28,788,738	27,276,463	28,736,629	27,224,576
Guarantees and commitments				
Guarantees issued in HRK	33,336	32,082	33,336	32,082
Issued guarantees in foreign currency	1,945,713	1,982,969	1,945,713	1,982,969
Open letters of credit in foreign currency	3,667	-	3,667	-
Undrawn loans	4,014,254	3,928,177	4,014,254	3,928,177
Other irrevocable contingent liabilities	335	335	335	335
Total	5,997,305	5,943,563	5,997,305	5,943,563
Total credit risk exposure	34,786,043	33,220,026	34,733,934	33,168,139

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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 Mar 31, 2017	Republic of Croatia	EU countries	Other countries	Total
Assets				
Cash on hand and due from banks	925,608	1,661,443	3,703	2,590,754
Deposits with other banks	2,408	17,832	-	20,240
Loans to financial institutions	11,366,035	-	-	11,366,035
Loans to other customers	11,167,729	-	216,401	11,384,130
Financial assets at fair value through profit or loss	285	-	-	285
Assets available for sale	3,422,511	-	-	3,422,511
Assets held to maturity	1,401	-	-	1,401
Other assets	2,938	436	8	3,382
Total	26,888,915	1,679,711	220,112	28,788,738
Guarantees and commitments				
Guarantees issued in HRK	32,734	602	-	33,336
Issued guarantees in foreign currency	1,945,713	-	-	1,945,713
Open letters of credit in foreign currency	3,667	-	-	3,667
Undrawn loans	4,014,254	-	-	4,014,254
Other irrevocable contingent liabilities	335	-	-	335
Total	5,996,703	602	-	5,997,305
Total credit risk exposure	32,885,618	1,680,313	220,112	34,786,043

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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, 2016	Republic of Croatia	EU countries	Other countries	Total
Assets				
Cash on hand and due from banks	188,322	301,354	1,567	491,243
Deposits with other banks	3,291	20,581	-	23,872
Loans to financial institutions	11,889,111	-	-	11,889,111
Loans to other customers	11,281,848	-	229,346	11,511,194
Financial assets at fair value through profit or loss	286	-	-	286
Assets available for sale	3,353,086	-	-	3,353,086
Assets held to maturity	1,422	-	-	1,422
Other assets	5,644	605	-	6,249
Total	26,723,010	322,540	230,913	27,276,463
Guarantees and commitments				
Guarantees issued in HRK	31,480	602	-	32,082
Issued guarantees in foreign currency	1,982,969	-	-	1,982,969
Undrawn loans	3,928,177	-	-	3,928,177
Other irrevocable contingent liabilities	335	-	-	335
Total	5,942,961	602	-	5,943,563
Total credit risk exposure	32,665,971	323,142	230,913	33,220,026

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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 Mar 31, 2017	Republic of Croatia	EU countries	Other countries	Total
Assets				
Cash on hand and due from banks	924,882	1,661,443	3,703	2,590,028
Deposits with other banks	2,408	17,832	-	20,240
Loans to financial institutions	11,366,035	-	-	11,366,035
Loans to other customers	11,167,729	-	216,401	11,384,130
Assets available for sale	3,373,860	-	-	3,373,860
Other assets	2,105	223	8	2,336
Total	26,837,019	1,679,498	220,112	28,736,629
Guarantees and commitments				
Guarantees issued in HRK	32,734	602	-	33,336
Issued guarantees in foreign currency	1,945,713	-	-	1,945,713
Open letters of credit in foreign currency	3,667	-	-	3,667
Undrawn loans	4,014,254	-	-	4,014,254
Other irrevocable contingent liabilities	335	-	-	335
Total	5,996,703	602	-	5,997,305
Total credit risk exposure	32,833,722	1,680,100	220,112	34,733,934

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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, 2016	Republic of Croatia	EU countries	Other countries	Total
Assets				
Cash on hand and due from banks	187,771	301,354	1,567	490,692
Deposits with other banks	3,291	20,581	-	23,872
Loans to financial institutions	11,889,111	-	-	11,889,111
Loans to other customers	11,281,848	-	229,346	11,511,194
Assets available for sale	3,306,628	-	-	3,306,628
Other assets	2,844	235	-	3,079
Total	26,671,493	322,170	230,913	27,224,576
Guarantees and commitments				
Guarantees issued in HRK	31,480	602	-	32,082
Issued guarantees in foreign currency	1,982,969	-	-	1,982,969
Undrawn loans	3,928,177	-	-	3,928,177
Other irrevocable contingent liabilities	335	-	-	335
Total	5,942,961	602	-	5,943,563
Total credit risk exposure	32,614,454	322,772	230,913	33,168,139

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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
	Mar 31, 2017	Mar 31, 2017	Dec 31, 2016	Dec 31, 2016
Financial intermediation and insurance	17,229,435	-	15,359,154	-
Water and electric supply and other infrastructure	1,335,994	993,908	1,322,277	959,881
Tourism	3,595,421	280,322	3,630,150	363,739
Transport, warehousing and connections	1,677,604	829,675	1,714,718	836,069
Shipbuilding	2,270,729	542,123	2,257,050	572,383
Agriculture and fishery	500,650	72,770	515,711	68,982
Food industry	1,011,817	193,242	1,159,546	205,632
Construction industry	1,179,793	29,304	1,225,887	53,900
Other industry	476,484	136,402	527,352	138,850
Public administration	2,499,736	2,499,737	2,426,716	2,426,716
Education	8,182	2,485	47,020	40,956
Manufacture of basic metals and fabricated metal products, except machinery and equipment	401,073	60,793	407,254	62,818
Manufacture of chemicals and chemical products	252,004	16,867	255,576	16,761
Manufacture of other non-metallic mineral products	264,805	3,642	273,959	4,399
Pharmaceutical industry	567,310	795	572,470	809
Other	1,515,006	325,017	1,525,185	311,092
Total credit risk exposure	34,786,043	5,987,082	33,220,026	6,062,987

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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
	Mar 31, 2017	Mar 31, 2017	Dec 31, 2016	Dec 31, 2016
Financial intermediation and insurance	17,223,103	-	15,352,325	-
Water and electric supply and other infrastructure	1,335,994	993,908	1,322,277	959,881
Tourism	3,595,421	280,322	3,630,150	363,739
Transport, warehousing and connections	1,677,203	829,275	1,714,322	835,673
Shipbuilding	2,270,729	542,123	2,257,050	572,383
Agriculture and fishery	500,625	72,746	515,702	68,974
Food industry	1,011,754	193,180	1,159,491	205,577
Construction industry	1,179,702	29,213	1,225,813	53,826
Other industry	476,248	136,167	527,143	138,641
Public administration	2,455,854	2,455,854	2,383,635	2,383,635
Education	8,182	2,485	47,020	40,956
Manufacture of basic metals and fabricated metal products, except machinery and equipment	401,027	60,746	407,200	62,764
Manufacture of chemicals and chemical products	251,966	16,828	255,537	16,721
Manufacture of other non-metallic mineral products	264,777	3,615	273,896	4,336
Pharmaceutical industry	566,517	-	571,663	-
Other	1,514,832	324,843	1,524,915	310,823
Total credit risk exposure	34,733,934	5,941,305	33,168,139	6,017,929

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 – 31 March 2017 (unaudited) (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 31 March 2017 amounted to HRK 28,798,961 thousand (31 December 2016: HRK 27,157,039 thousand), and for the Bank HRK 28,792,629 thousand (31 December 2016: HRK 27,150,210 thousand).

In the total net highest exposure of the Bank as of 31 March 2017, the credit risk of HRK 3,984,461 thousand (31 December 2016: HRK 4,136,125 thousand) is not covered with ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 620,071 thousand (31 December 2016: HRK 867,410 thousand), from local (regional) authorities of HRK 442,204 thousand (31 December 2016: HRK 395,629 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 242,025 thousand (31 December 2016: HRK 242,735 thousand), government funds of HRK 897 thousand (31 December 2016: HRK 1,250 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 2,471,729 thousand (31 December 2016: HRK 2,399,224 thousand). In addition, an amount of HRK 207,535 thousand (31 December 2016: HRK 229,877 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	
	(%)	(%)	Mar 31, 2017	Dec 31, 2016	Mar 31, 2017	Dec 31, 2016
A	0.97%	1.52%	33,004,796	31,671,378	32,952,687	31,619,491
B	32.14%	34.08%	1,781,247	1,548,648	1,781,247	1,548,648
C	95.76%	95.56%	-	-	-	-
Total			34,786,043	33,220,026	34,733,934	33,168,139

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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
Mar 31, 2017								
Assets								
Cash on hand and due from banks	2,590,754	-	-	2,590,754	-	-	-	-
Deposits with other banks	20,240	-	-	20,240	-	-	-	-
Loans to financial institutions	11,001,574	364,461	-	11,366,035	-	-	-	-
Loans to other customers	9,998,468	1,385,662	-	11,384,130	2,672,303	33,248	-	2,705,551
Financial assets at fair value through profit or loss	285	-	-	285	-	-	-	-
Assets available for sale	3,422,511	-	-	3,422,511	2,515,952	-	-	2,515,952
Assets held to maturity	1,401	-	-	1,401	1,401	-	-	1,401
Other assets	2,971	411	-	3,382	2,410	411	-	2,821
Total	27,038,204	1,750,534	-	28,788,738	5,192,066	33,659	-	5,225,725
Guarantees and commitments								
Guarantees issued in HRK	33,336	-	-	33,336	1,254	-	-	1,254
Issued guarantees in foreign currency	1,927,285	18,428	-	1,945,713	220,875	-	-	220,875
Open letters of credit in foreign currency	3,667	-	-	3,667	-	-	-	0
Undrawn loans	4,001,969	12,285	-	4,014,254	538,893	-	-	538,893
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
Total	5,966,592	30,713	-	5,997,305	761,357	-	-	761,357
Total credit risk exposure	33,004,796	1,781,247	-	34,786,043	5,953,423	33,659	-	5,987,082

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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, 2016								
Assets								
Cash on hand and due from banks	491,243	-	-	491,243	-	-	-	-
Deposits with other banks	23,872	-	-	23,872	-	-	-	-
Loans to financial institutions	11,472,130	416,981	-	11,889,111	-	-	-	-
Loans to other customers	10,415,684	1,095,510	-	11,511,194	2,484,106	34,930	-	2,519,036
Financial assets at fair value through profit or loss	286	-	-	286	-	-	-	-
Assets available for sale	3,353,086	-	-	3,353,086	2,442,549	-	-	2,442,549
Assets held to maturity	1,422	-	-	1,422	1,422	-	-	1,422
Other assets	5,853	396	-	6,249	3,270	396	-	3,666
Total	25,763,576	1,512,887	-	27,276,463	4,931,347	35,326	-	4,966,673
Guarantees and commitments								
Guarantees issued in HRK	32,082	-	-	32,082	-	-	-	-
Issued guarantees in foreign currency	1,964,149	18,820	-	1,982,969	437,160	-	-	437,160
Undrawn loans	3,911,236	16,941	-	3,928,177	658,819	-	-	658,819
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
Total	5,907,802	35,761	-	5,943,563	1,096,314	-	-	1,096,314
Total credit risk exposure	31,671,378	1,548,648	-	33,220,026	6,027,661	35,326	-	6,062,987

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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
Mar 31, 2017								
Assets								
Cash on hand and due from banks	2,590,028	-	-	2,590,028	-	-	-	-
Deposits with other banks	20,240	-	-	20,240	-	-	-	-
Loans to financial institutions	11,001,574	364,461	-	11,366,035	-	-	-	-
Loans to other customers	9,998,468	1,385,662	-	11,384,130	2,672,303	33,248	-	2,705,551
Assets available for sale	3,373,860	-	-	3,373,860	2,472,339	-	-	2,472,339
Other assets	1,925	411	-	2,336	1,647	411	-	2,058
Total	26,986,095	1,750,534	-	28,736,629	5,146,289	33,659	-	5,179,948
Guarantees and commitments								
Guarantees issued in HRK	33,336	-	-	33,336	1,254	-	-	1,254
Issued guarantees in foreign currency	1,927,285	18,428	-	1,945,713	220,875	-	-	220,875
Open letters of credit in foreign currency	3,667	-	-	3,667	-	-	-	-
Undrawn loans	4,001,969	12,285	-	4,014,254	538,893	-	-	538,893
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
Total	5,966,592	30,713	-	5,997,305	761,357	-	-	761,357
Total credit risk exposure	32,952,687	1,781,247	-	34,733,934	5,907,646	33,659	-	5,941,305

In the total net highest exposure of the Group and the Bank, the amount of loans to other customers of HRK 1,511,294 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 618,744 thousand, local (regional) authorities of HRK 442,204 thousand, public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 242,025 thousand and the government funds of HRK 786 thousand. An additional amount of HRK 207,535 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 2,515,566 thousand for the Group and HRK 2,471,729 thousand for the Bank.

Other assets of HRK 1,103 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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, 2016								
Assets								
Cash on hand and due from banks	490,692	-	-	490,692	-	-	-	-
Deposits with other banks	23,872	-	-	23,872	-	-	-	-
Loans to financial institutions	11,472,130	416,981	-	11,889,111	-	-	-	-
Loans to other customers	10,415,684	1,095,510	-	11,511,194	2,484,106	34,930	-	2,519,036
Assets available for sale	3,306,628	-	-	3,306,628	2,399,825	-	-	2,399,825
Other assets	2,683	396	-	3,079	2,358	396	-	2,754
Total	25,711,689	1,512,887	-	27,224,576	4,886,289	35,326	-	4,921,615
Guarantees and commitments								
Guarantees issued in HRK	32,082	-	-	32,082	-	-	-	-
Issued guarantees in foreign currency	1,964,149	18,820	-	1,982,969	437,160	-	-	437,160
Undrawn loans	3,911,236	16,941	-	3,928,177	658,819	-	-	658,819
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
Total	5,907,802	35,761	-	5,943,563	1,096,314	-	-	1,096,314
Total credit risk exposure	31,619,491	1,548,648	-	33,168,139	5,982,603	35,326	-	6,017,929

In the total net highest exposure of the Group and the Bank, the amount of loans to other customers of HRK 1,498,400 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 628,961 thousand, local (regional) authorities of HRK 395,629 thousand, public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 242,735 thousand and the government funds of HRK 1,198 thousand. An additional amount of HRK 229,877 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 2,399,224 thousand for the Group and HRK 2,442,203 thousand for the Bank.

Other assets of HRK 922 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

The amount of HRK 237,245 thousand relates to a guarantee issued in foreign currency, for which the liability was assumed by the Republic of Croatia. The guarantee was removed from business records of HBOR after the reporting period date, i.e. on 13 February 2017, due to the cessation of payment obligation resulting from arbitration decision.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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
Mar 31, 2017				
Assets				
Cash on hand and due from banks	2,590,754	-	-	2,590,754
Deposits with other banks	20,240	-	-	20,240
Loans to financial institutions	10,898,125	103,449	364,461	11,366,035
Loans to other customers	9,623,723	374,745	1,385,662	11,384,130
Financial assets at fair value through profit or loss	285	-	-	285
Assets available for sale	3,422,511	-	-	3,422,511
Assets held to maturity	1,401	-	-	1,401
Other assets	2,373	598	411	3,382
Total	26,559,412	478,792	1,750,534	28,788,738
Guarantees and commitments				
Guarantees issued in HRK	33,336	-	-	33,336
Issued guarantees in foreign currency	1,927,285	-	18,428	1,945,713
Open letters of credit in foreign currency	3,667	-	-	3,667
Undrawn loans	4,001,969	-	12,285	4,014,254
Other irrevocable contingent liabilities	335	-	-	335
Total	5,966,592	-	30,713	5,997,305
Total credit risk exposure	32,526,004	478,792	1,781,247	34,786,043

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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, 2016				
Assets				
Cash on hand and due from banks	491,243	-	-	491,243
Deposits with other banks	23,872	-	-	23,872
Loans to financial institutions	11,259,676	212,454	416,981	11,889,111
Loans to other customers	10,249,918	165,766	1,095,510	11,511,194
Financial assets at fair value through profit or loss	286	-	-	286
Assets available for sale	3,353,086	-	-	3,353,086
Assets held to maturity	1,422	-	-	1,422
Other assets	4,528	1,325	396	6,249
Total	25,384,031	379,545	1,512,887	27,276,463
Guarantees and commitments				
Guarantees issued in HRK	32,082	-	-	32,082
Issued guarantees in foreign currency	1,964,149	-	18,820	1,982,969
Undrawn loans	3,911,236	-	16,941	3,928,177
Other irrevocable contingent liabilities	335	-	-	335
Total	5,907,802	-	35,761	5,943,563
Total credit risk exposure	31,291,833	379,545	1,548,648	33,220,026

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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
Mar 31, 2017				
Assets				
Cash on hand and due from banks	2,590,028	-	-	2,590,028
Deposits with other banks	20,240	-	-	20,240
Loans to financial institutions	10,898,125	103,449	364,461	11,366,035
Loans to other customers	9,623,723	374,745	1,385,662	11,384,130
Assets available for sale	3,373,860	-	-	3,373,860
Other assets	1,526	399	411	2,336
Total	26,507,502	478,593	1,750,534	28,736,629
Guarantees and commitments				
Guarantees Issued in HRK	33,336	-	-	33,336
Issued guarantees in foreign currency	1,927,285	-	18,428	1,945,713
Open letters of credit in foreign currency	3,667	-	-	3,667
Undrawn loans	4,001,969	-	12,285	4,014,254
Other irrevocable contingent liabilities	335	-	-	335
Total	5,966,592	-	30,713	5,997,305
Total credit risk exposure	32,474,094	478,593	1,781,247	34,733,934

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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, 2016				
Assets				
Cash on hand and due from banks	490,692	-	-	490,692
Deposits with other banks	23,872	-	-	23,872
Loans to financial institutions	11,259,676	212,454	416,981	11,889,111
Loans to other customers	10,249,918	165,766	1,095,510	11,511,194
Assets available for sale	3,306,628	-	-	3,306,628
Other assets	1,666	1,017	396	3,079
Total	25,332,452	379,237	1,512,887	27,224,576
Guarantees and commitments				
Guarantees issued in HRK	32,082	-	-	32,082
Issued guarantees in foreign currency	1,964,149	-	18,820	1,982,969
Undrawn loans	3,911,236	-	16,941	3,928,177
Other irrevocable contingent liabilities	335	-	-	335
Total	5,907,802	-	35,761	5,943,563
Total credit risk exposure	31,240,254	379,237	1,548,648	33,168,139

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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 Mar 31, 2017	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	21,088	74,557	653	30	7,121	103,449
Loans to other customers	297,288	26	9,672	14,746	53,013	374,745
Other assets	127	96	55	61	259	598
Total	318,503	74,679	10,380	14,837	60,393	478,792

Group Dec 31, 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	200,364	552	4,000	17	7,521	212,454
Loans to other customers	109,035	36	8,072	803	47,820	165,766
Other assets	936	200	125	38	26	1,325
Total	310,335	788	12,197	858	55,367	379,545

Bank Mar 31, 2017	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	21,088	74,557	653	30	7,121	103,449
Loans to other customers	297,288	26	9,672	14,746	53,013	374,745
Other assets	106	14	5	15	259	399
Total	318,482	74,597	10,330	14,791	60,393	478,593

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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 Dec 31, 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	200,364	552	4,000	17	7,521	212,454
Loans to other customers	109,035	36	8,072	803	47,820	165,766
Other assets	862	73	38	18	26	1,017
Total	310,261	661	12,110	838	55,367	379,237

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 96,962 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 6,487 thousand.

From total due and not impaired loans to other customers in the reporting period, an amount of HRK 297,288 thousand, i.e. 79%, relates to delays of up to 15 days, of which the amount of HRK 10,155 thousand, i.e. 3%, was guaranteed by the Republic of Croatia.

From total due and not impaired loans to financial institutions in 2016, an amount of HRK 11,448 thousand, i.e. 5%, relates to not executed extensions of short-term revolving loans.

Due to the maturity falling on 31 December 2016 being a non-working day, an amount of HRK 193,524 thousand, i.e. 91% of due but not impaired loans to financial institutions, was collected on 2 January 2017 being the first following working day.

From total due and not impaired loans to other customers in 2016, an amount of HRK 109,035 thousand, i.e. 66%, relates to delays of up to 15 days, of which the amount of HRK 10,430 thousand, i.e. 10%, 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 – 31 March 2017 (unaudited) (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 Management 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 by the Ordinance on Liquidity Risk Management.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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 31 March 2017 and 31 December 2016 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 Mar 31, 2017	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	2,590,759	-	-	-	-	2,590,759
Deposits with other banks	20,240	-	-	-	-	20,240
Loans to financial institutions*	612,032	531,827	1,411,107	3,029,085	5,781,984	11,366,035
Loans to other customers	1,466,855	309,593	986,231	1,817,968	6,803,483	11,384,130
Financial assets at fair value through profit or loss	285	-	-	-	-	285
Assets available for sale	3,449,928	11,275	244	-	-	3,461,447
Assets held to maturity	-	17	2	-	1,382	1,401
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	56,415	56,415
Non-current assets held for sale	-	27	-	3,880	13,333	17,240
Other assets	3,443	899	1,177	589	1,116	7,224
Total assets (1)	8,143,542	853,638	2,398,761	4,851,522	12,657,713	28,905,176
Liabilities						
Deposits	122,735	-	9,791	108,994	8,189	249,709
Borrowings	62,936	469,935	1,064,002	3,303,054	9,894,631	14,794,558
Bonds payable	-	1,993,175	-	-	1,103,933	3,097,108
Other liabilities	162,602	30,481	96,587	181,682	207,198	678,550
Total liabilities	348,273	2,493,591	1,170,380	3,593,730	11,213,951	18,819,925
Equity						
Founder's capital	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	2,996,968	2,996,968
Other reserves	-	-	-	-	75,072	75,072
Net profit for the year	-	-	-	-	41,399	41,399
Total equity attributable to equity holders of the parent	-	-	-	-	10,073,071	10,073,071
Guarantee fund	-	-	-	-	12,180	12,180
Total equity	-	-	-	-	10,085,251	10,085,251
Total liabilities and total equity (2)	348,273	2,493,591	1,170,380	3,593,730	21,299,202	28,905,176
Net assets/liabilities (1) – (2)	7,795,269	(1,639,953)	1,228,381	1,257,792	(8,641,489)	-
Net cumulative assets/liabilities	7,795,269	6,155,316	7,383,697	8,641,489	-	-

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

* Receivables of HRK 284,316 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 – 31 March 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.3. Liquidity risk (continued)

Group Dec 31, 2016	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	491,246	-	-	-	-	491,246
Deposits with other banks	-	23,872	-	-	-	23,872
Loans to financial institutions*	684,891	441,872	1,774,961	3,131,823	5,855,564	11,889,111
Loans to other customers	1,423,234	385,784	948,959	1,850,611	6,902,606	11,511,194
Financial assets at fair value through profit or loss	286	-	-	-	-	286
Assets available for sale	3,375,864	14,074	96	-	-	3,390,034
Assets held to maturity	-	10	4	-	1,408	1,422
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	57,305	57,305
Non-current assets held for sale	-	-	27	11,450	5,753	17,230
Other assets	6,225	748	530	620	999	9,122
Total assets (1)	5,981,746	866,360	2,724,577	4,994,504	12,823,635	27,390,822
Liabilities						
Deposits	75,581	-	12,687	46,407	8,169	142,844
Borrowings	355,456	237,339	1,017,892	3,060,113	8,720,949	13,391,749
Bonds payable	-	95,932	1,888,837	-	1,120,800	3,105,569
Other liabilities	151,186	29,918	105,330	194,459	227,059	707,952
Total liabilities	582,223	363,189	3,024,746	3,300,979	10,076,977	17,348,114
Equity						
Founder's capital	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	2,682,127	2,682,127
Other reserves	-	-	-	-	73,733	73,733
Net profit for the year	-	-	-	-	314,841	314,841
Total equity attributable to equity holders of the parent	-	-	-	-	10,030,333	10,030,333
Guarantee fund	-	-	-	-	12,375	12,375
Total equity	-	-	-	-	10,042,708	10,042,708
Total liabilities and total equity (2)	582,223	363,189	3,024,746	3,300,979	20,119,685	27,390,822
Net assets/liabilities (1) – (2)	5,399,523	503,171	(300,169)	1,693,525	(7,296,050)	-
Net cumulative assets/liabilities	5,399,523	5,902,694	5,602,525	7,296,050	-	-

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

* Receivables of HRK 232,489 thousand relate to reverse REPO agreements and were placed in the up to 1 month maturity category.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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 31 March 2017 and 31 December 2016 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 Mar 31, 2017	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	2,590,033	-	-	-	-	2,590,033
Deposits with other banks	20,240	-	-	-	-	20,240
Loans to financial institutions*	612,032	531,827	1,411,107	3,029,085	5,781,984	11,366,035
Loans to other customers	1,466,855	309,593	986,231	1,817,968	6,803,483	11,384,130
Assets available for sale	3,401,758	11,038	-	-	-	3,412,796
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	56,330	56,330
Non-current assets held for sale	-	27	-	3,880	13,333	17,240
Other assets	2,688	643	1,142	588	934	5,995
Total assets (1)	8,093,606	853,128	2,398,480	4,851,521	12,692,188	28,888,923
Liabilities						
Deposits	122,735	-	9,791	108,994	8,189	249,709
Borrowings	62,936	469,935	1,064,002	3,303,054	9,894,631	14,794,558
Bonds payable	-	1,993,175	-	-	1,103,933	3,097,108
Other liabilities	161,938	29,828	92,085	175,206	209,112	668,169
Total liabilities	347,609	2,492,938	1,165,878	3,587,254	11,215,865	18,809,544
Equity						
Founder's capital	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	2,995,656	2,995,656
Other reserves	-	-	-	-	71,660	71,660
Net profit for the year	-	-	-	-	40,251	40,251
Capital					10,067,199	10,067,199
Guarantee fund	-	-	-	-	12,180	12,180
Total equity	-	-	-	-	10,079,379	10,079,379
Total liabilities and total equity (2)	347,609	2,492,938	1,165,878	3,587,254	21,295,244	28,888,923
Net assets/liabilities (1) – (2)	7,745,997	(1,639,810)	1,232,602	1,264,267	(8,603,056)	-
Net cumulative assets/liabilities	7,745,997	6,106,187	7,338,789	8,603,056	-	-

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

* *Receivables of HRK 284,316 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 – 31 March 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.3. Liquidity risk (continued)

Bank Dec 31, 2016	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	490,695	-	-	-	-	490,695
Deposits with other banks	-	23,872	-	-	-	23,872
Loans to financial institutions*	684,891	441,872	1,774,961	3,131,823	5,855,564	11,889,111
Loans to other customers	1,423,234	385,784	948,959	1,850,611	6,902,606	11,511,194
Assets available for sale	3,329,585	13,989	-	-	-	3,343,574
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	57,216	57,216
Non-current assets held for sale	-	-	27	11,450	5,753	17,230
Other assets	3,505	326	504	620	945	5,900
Total assets (1)	5,931,910	865,843	2,724,451	4,994,504	12,858,208	27,374,916
Liabilities						
Deposits	75,581	-	12,687	46,407	8,169	142,844
Borrowings	355,456	237,339	1,017,892	3,060,113	8,720,949	13,391,749
Bonds payable	-	95,932	1,888,837	-	1,120,800	3,105,569
Other liabilities	150,555	28,649	100,528	188,186	228,856	696,774
Total liabilities	581,592	361,920	3,019,944	3,294,706	10,078,774	17,336,936
Equity						
Founder's capital	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	2,682,131	2,682,131
Other reserves	-	-	-	-	70,317	70,317
Net profit for the year	-	-	-	-	313,525	313,525
Capital	-	-	-	-	10,025,605	10,025,605
Guarantee fund	-	-	-	-	12,375	12,375
Total equity	-	-	-	-	10,037,980	10,037,980
Total liabilities and total equity (2)	581,592	361,920	3,019,944	3,294,706	20,116,754	27,374,916
Net assets/liabilities (1) – (2)	5,350,318	503,923	(295,493)	1,699,798	(7,258,546)	-
Net cumulative assets/liabilities	5,350,318	5,854,241	5,558,748	7,258,546	-	-

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

* Receivables of HRK 232,489 thousand relate to reverse REPO agreements and were placed in the up to 1 month maturity category.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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 Mar 31, 2017	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
Financial liabilities						
Deposits	122,735	-	9,791	108,994	8,189	249,709
Borrowings	81,999	461,303	1,252,890	3,763,062	11,228,801	16,788,055
Bonds payable	-	2,019,250	-	133,891	1,170,879	3,324,020
Other liabilities	162,602	30,481	96,587	181,682	207,198	678,550
Total	367,336	2,511,034	1,359,268	4,187,629	12,615,067	21,040,334

Group Dec 31, 2016	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
Financial liabilities						
Deposits	75,581	-	12,687	46,407	8,169	142,844
Borrowings	382,184	208,630	1,261,178	3,598,035	9,694,025	15,144,052
Bonds payable	-	-	2,051,330	136,040	1,188,820	3,376,190
Other liabilities	151,186	29,918	105,330	194,459	227,059	707,952
Total	608,951	238,548	3,430,525	3,974,941	11,118,073	19,371,038

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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 Bank in undiscounted amounts:

Bank Mar 31, 2017	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
Financial liabilities						
Deposits	122,735	-	9,791	108,994	8,189	249,709
Borrowings	81,999	461,303	1,252,890	3,763,062	11,228,801	16,788,055
Bonds payable	-	2,019,250	-	133,891	1,170,879	3,324,020
Other liabilities	161,938	29,828	92,085	175,206	209,112	668,169
Total	366,672	2,510,381	1,354,766	4,181,153	12,616,981	21,029,953

Bank Dec 31, 2016	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
Financial liabilities						
Deposits	75,581	-	12,687	46,407	8,169	142,844
Borrowings	382,184	208,630	1,261,178	3,598,035	9,694,025	15,144,052
Bonds payable	-	-	2,051,330	136,040	1,188,820	3,376,190
Other liabilities	150,555	28,649	100,528	188,186	228,856	696,774
Total	608,320	237,279	3,425,723	3,968,668	11,119,870	19,359,860

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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 Management Board and the Asset and Liability Management Committee. For the purpose of measurement and monitoring of interest rate risk, the Bank carries out interest rate gap analysis. Interest rate gap is calculated for certain periods according to the possibilities of interest rate changes and 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. Depending on the results of calculations, i.e. on the previous reports, decisions are made on the types of interest rates for future borrowings and placements in order to reduce the gap to the lowest level possible. 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 – 31 March 2017 (unaudited) (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 31 March 2017 and 31 December 2016 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter. Assets and liabilities on which interest is not charged are placed into the non-interest bearing category. The tables below demonstrate the estimation of Group's interest rate risk exposure as of 31 March 2017 and 31 December 2016 which may not be indicative for the positions in other periods.

Group Mar 31, 2017	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	726	-	-	-	-	2,590,033	2,590,759
Deposits with other banks	20,240	-	-	-	-	-	20,240
Loans to financial institutions	604,182	904,254	1,470,018	2,863,317	5,512,587	11,677	11,366,035
Loans to other customers	1,555,494	915,763	909,279	1,501,669	6,445,160	56,765	11,384,130
Financial assets at fair value through profit or loss	-	-	-	-	-	285	285
Assets available for sale	2,509,119	-	-	-	-	952,328	3,461,447
Assets held to maturity	-	-	-	-	1,382	19	1,401
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	56,415	56,415
Non-current assets held for sale	-	-	-	-	-	17,240	17,240
Other assets	-	-	-	-	-	7,224	7,224
Total assets (1)	4,689,761	1,820,017	2,379,297	4,364,986	11,959,129	3,691,986	28,905,176

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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 Mar 31, 2017	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	-	-	-	-	-	249,709	249,709
Borrowings	62,936	407,057	1,064,002	3,303,054	9,894,631	62,878	14,794,558
Bonds payable	-	1,859,325	-	-	1,103,933	133,850	3,097,108
Other liabilities	-	-	-	-	-	678,550	678,550
Total liabilities	62,936	2,266,382	1,064,002	3,303,054	10,998,564	1,124,987	18,819,925
Equity							
Founder's capital	-	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	-	2,996,968	2,996,968
Other reserves	-	-	-	-	-	75,072	75,072
Net profit for the year	-	-	-	-	-	41,399	41,399
Total equity attributable to equity holders of the parent	-	-	-	-	-	10,073,071	10,073,071
Guarantee fund	-	-	-	-	-	12,180	12,180
Total equity	-	-	-	-	-	10,085,251	10,085,251
Total liabilities and total equity (2)	62,936	2,266,382	1,064,002	3,303,054	10,998,564	11,210,238	28,905,176
Net assets/liabilities (1) – (2)	4,626,825	(446,365)	1,315,295	1,061,932	960,565	(7,518,252)	

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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, 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	551	-	-	-	-	490,695	491,246
Deposits with other banks	-	23,871	-	-	-	1	23,872
Loans to financial institutions	652,666	836,489	1,873,910	2,926,641	5,562,538	36,867	11,889,111
Loans to other customers	1,517,371	824,285	1,081,418	1,506,407	6,522,314	59,399	11,511,194
Financial assets at fair value through profit or loss	-	-	-	-	-	286	286
Assets available for sale	2,431,379	-	-	-	-	958,655	3,390,034
Assets held to maturity	-	-	-	-	1,408	14	1,422
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	57,305	57,305
Non-current assets held for sale	-	-	-	-	-	17,230	17,230
Other assets	-	-	-	-	-	9,122	9,122
Total assets (1)	4,601,967	1,684,645	2,955,328	4,433,048	12,086,260	1,629,574	27,390,822
Liabilities							
Deposits	-	-	-	-	-	142,844	142,844
Borrowings	355,442	171,450	1,020,722	3,059,168	8,720,949	64,018	13,391,749
Bonds payable	-	-	1,888,837	-	1,120,800	95,932	3,105,569
Other liabilities	-	-	-	-	-	707,952	707,952
Total liabilities	355,442	171,450	2,909,559	3,059,168	9,841,749	1,010,746	17,348,114
Equity							
Founder's capital	-	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	-	2,682,127	2,682,127
Other reserves	-	-	-	-	-	73,733	73,733
Net profit for the year	-	-	-	-	-	314,841	314,841
Total equity attributable to equity holders of the parent	-	-	-	-	-	10,030,333	10,030,333
Guarantee fund	-	-	-	-	-	12,375	12,375
Total equity	-	-	-	-	-	10,042,708	10,042,708
Total liabilities and total equity (2)	355,442	171,450	2,909,559	3,059,168	9,841,749	11,053,454	27,390,822
Net assets/liabilities (1) – (2)	4,246,525	1,513,195	45,769	1,373,880	2,244,511	(9,423,880)	-

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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 31 March 2017 and 31 December 2016 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter. Assets and liabilities on which interest is not charged are placed into the non-interest bearing category. The tables below demonstrate the estimation of HBOR's interest rate risk exposure as of 31 March 2017 and 31 December 2016 which may not be indicative for the positions in other periods.

Bank	Up to 1	1 to 3	3 months	1 to 3	Over 3	Non-	Total
Mar 31, 2017	month	months	to 1 year	years	years	interest bearing	
Assets							
Cash on hand and due from banks	-	-	-	-	-	2,590,033	2,590,033
Deposits with other banks	20,240	-	-	-	-	-	20,240
Loans to financial institutions	604,182	904,254	1,470,018	2,863,317	5,512,587	11,677	11,366,035
Loans to other customers	1,555,494	915,763	909,279	1,501,669	6,445,160	56,765	11,384,130
Assets available for sale	2,461,302	-	-	-	-	951,494	3,412,796
Investments in subsidiaries	-	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	56,330	56,330
Non-current assets held for sale	-	-	-	-	-	17,240	17,240
Other assets	-	-	-	-	-	5,995	5,995
Total assets (1)	4,641,218	1,820,017	2,379,297	4,364,986	11,957,747	3,725,658	28,888,923

h

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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 Mar 31, 2017	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	-	-	-	-	-	249,709	249,709
Borrowings	62,936	407,057	1,064,002	3,303,054	9,894,631	62,878	14,794,558
Bonds payable	-	1,859,325	-	-	1,103,933	133,850	3,097,108
Other liabilities	-	-	-	-	-	668,169	668,169
Total liabilities	62,936	2,266,382	1,064,002	3,303,054	10,998,564	1,114,606	18,809,544
Equity							
Founder's capital	-	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	-	2,995,656	2,995,656
Other reserves	-	-	-	-	-	71,660	71,660
Net profit for the year	-	-	-	-	-	40,251	40,251
Capital	-	-	-	-	-	10,067,199	10,067,199
Guarantee fund	-	-	-	-	-	12,180	12,180
Total equity	-	-	-	-	-	10,079,379	10,079,379
Total liabilities and total equity (2)	62,936	2,266,382	1,064,002	3,303,054	10,998,564	11,193,985	28,888,923
Net assets/liabilities (1) – (2)	4,578,282	(446,365)	1,315,295	1,061,932	959,183	(7,468,327)	-

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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, 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	-	-	-	-	-	490,695	490,695
Deposits with other banks	-	23,871	-	-	-	1	23,872
Loans to financial institutions	652,666	836,489	1,873,910	2,926,641	5,562,538	36,867	11,889,111
Loans to other customers	1,517,371	824,285	1,081,418	1,506,407	6,522,314	59,399	11,511,194
Assets available for sale	2,385,835	-	-	-	-	957,739	3,343,574
Investments in subsidiaries	-	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	57,216	57,216
Non-current assets held for sale	-	-	-	-	-	17,230	17,230
Other assets	-	-	-	-	-	5,900	5,900
Total assets (1)	4,555,872	1,684,645	2,955,328	4,433,048	12,084,852	1,661,171	27,374,916
Liabilities							
Deposits	-	-	-	-	-	142,844	142,844
Borrowings	355,442	171,450	1,020,722	3,059,168	8,720,949	64,018	13,391,749
Bonds payable	-	-	1,888,837	-	1,120,800	95,932	3,105,569
Other liabilities	-	-	-	-	-	696,774	696,774
Total liabilities	355,442	171,450	2,909,559	3,059,168	9,841,749	999,568	17,336,936
Equity							
Founder's capital	-	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	-	2,682,131	2,682,131
Other reserves	-	-	-	-	-	70,317	70,317
Net profit for the year	-	-	-	-	-	313,525	313,525
Capital	-	-	-	-	-	10,025,605	10,025,605
Guarantee fund	-	-	-	-	-	12,375	12,375
Total equity	-	-	-	-	-	10,037,980	10,037,980
Total liabilities and total equity (2)	355,442	171,450	2,909,559	3,059,168	9,841,749	11,037,548	27,374,916
Net assets/liabilities (1) – (2)	4,200,430	1,513,195	45,769	1,373,880	2,243,103	(9,376,377)	-

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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	
	Mar 31, 2017	Dec 31, 2016	Mar 31, 2017	Dec 31, 2016
Assets				
Fixed interest rate assets	23,614,606	23,991,858	23,564,681	23,944,355
Variable interest rate assets	1,598,584	1,769,390	1,598,584	1,769,390
Non-interest bearing	3,691,986	1,629,574	3,725,658	1,661,171
Total assets	28,905,176	27,390,822	28,888,923	27,374,916
Liabilities				
Fixed interest rate liabilities	17,693,078	16,333,589	17,693,078	16,333,589
Variable interest rate liabilities	1,860	3,779	1,860	3,779
Non-interest bearing	11,210,238	11,053,454	11,193,985	11,037,548
Total liabilities and total equity	28,905,176	27,390,822	28,888,923	27,374,916

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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. Mar 31, 2017	Effect on profit	Increase in b.p. in 2016	Effect on profit
		Mar 31, 2017		in 2016
		HRK '000		
EUR	+2	240	+4	535
USD	+13	529	+11	472

Currency	Decrease in b.p. Mar 31, 2017	Effect on profit	Decrease in b.p. in 2016	Effect on profit
		Mar 31, 2017		in 2016
		HRK '000		
EUR	-2	(240)	-4	(535)
USD	-13	(529)	-11	(472)

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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 Management Board and the Asset and Liability Management Committee. Methods for the measurement, i.e. assessment, monitoring and management of currency risk have been established, limits and 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 – 31 March 2017 (unaudited) (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 31 March 2017 and 31 December 2016 in HRK and foreign currencies can be shown as follows:

Group	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
Mar 31, 2017						
Assets						
Cash on hand and due from banks	3,750	1,661,422	1,388	1,666,560	924,199	2,590,759
Deposits with other banks	17,832	-	2,408	20,240	-	20,240
Loans to financial institutions	-	6,531,711	-	6,531,711	4,834,324	11,366,035
Loans to other customers	501,211	7,795,455	-	8,296,666	3,087,464	11,384,130
Financial assets at fair value through profit or loss	-	285	-	285	-	285
Assets available for sale	14,255	1,083,274	-	1,097,529	2,363,918	3,461,447
Assets held to maturity	-	1,401	-	1,401	-	1,401
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	56,415	56,415
Non-current assets held for sale	-	-	-	-	17,240	17,240
Other assets	-	202	-	202	7,022	7,224
Total assets (1)	537,048	17,073,750	3,796	17,614,594	11,290,582*	28,905,176
Liabilities						
Deposits	27,173	123,288	2,400	152,861	96,848	249,709
Borrowings	334,702	14,459,856	-	14,794,558	-	14,794,558
Bonds payable	-	3,097,108	-	3,097,108	-	3,097,108
Other liabilities	654	10,026	2,816	13,496	665,054	678,550
Total liabilities	362,529	17,690,278	5,216	18,058,023	761,902	18,819,925
Equity						
Founder's capital	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	2,996,968	2,996,968
Other reserves	-	-	-	-	75,072	75,072
Net profit for the year	-	-	-	-	41,399	41,399
Total equity attributable to equity holders of the parent	-	-	-	-	10,073,071	10,073,071
Guarantee fund	-	12,180	-	12,180	-	12,180
Total equity	-	12,180	-	12,180	10,073,071	10,085,251
Total liabilities and total equity (2)	362,529	17,702,458	5,216	18,070,203	10,834,973	28,905,176
Net assets/liabilities (1) – (2)	174,519	(628,708)	(1,420)**	(455,609)	455,609	-

*Amounts linked to a one-way currency clause represent HRK 221,732 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 – 31 March 2017 (unaudited) (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, 2016						
Assets						
Cash on hand and due from banks	1,606	301,338	1,584	304,528	186,718	491,246
Deposits with other banks	20,581	-	3,291	23,872	-	23,872
Loans to financial institutions	-	6,655,483	-	6,655,483	5,233,628	11,889,111
Loans to other customers	527,661	7,768,328	-	8,295,989	3,215,205	11,511,194
Financial assets at fair value through profit or loss	-	286	-	286	-	286
Assets available for sale	14,686	1,100,197	-	1,114,883	2,275,151	3,390,034
Assets held to maturity	-	1,422	-	1,422	-	1,422
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	57,305	57,305
Non-current assets held for sale	-	-	-	-	17,230	17,230
Other assets	-	369	-	369	8,753	9,122
Total assets (1)	564,534	15,827,423	4,875	16,396,832	10,993,990*	27,390,822
Liabilities						
Deposits	48,380	42,778	3,459	94,617	48,227	142,844
Borrowings	315,434	13,076,315	-	13,391,749	-	13,391,749
Bonds payable	-	3,105,569	-	3,105,569	-	3,105,569
Other liabilities	163	9,664	2,885	12,712	695,240	707,952
Total liabilities	363,977	16,234,326	6,344	16,604,647	743,467	17,348,114
Equity						
Founder's capital	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	2,682,127	2,682,127
Other reserves	-	-	-	-	73,733	73,733
Net profit for the year	-	-	-	-	314,841	314,841
Total equity attributable to equity holders of the parent	-	-	-	-	10,030,333	10,030,333
Guarantee fund	-	12,375	-	12,375	-	12,375
Total equity	-	12,375	-	12,375	10,030,333	10,042,708
Total liabilities and total equity (2)	363,977	16,246,701	6,344	16,617,022	10,773,800	27,390,822
Net assets/liabilities (1) – (2)	200,557	(419,278)	(1,469)**	(220,190)	220,190	-

*Amounts linked to a one-way currency clause represent HRK 249,278 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 – 31 March 2017 (unaudited) (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 31 March 2017 and 31 December 2016 in HRK and foreign currencies can be shown as follows:

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
Mar 31, 2017						
Assets						
Cash on hand and due from banks	3,750	1,661,422	1,388	1,666,560	923,473	2,590,033
Deposits with other banks	17,832	-	2,408	20,240	-	20,240
Loans to financial institutions	-	6,531,711	-	6,531,711	4,834,324	11,366,035
Loans to other customers	501,211	7,795,455	-	8,296,666	3,087,464	11,384,130
Assets available for sale	14,255	1,071,604	-	1,085,859	2,326,937	3,412,796
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	56,330	56,330
Non-current assets held for sale	-	-	-	-	17,240	17,240
Other assets	-	-	-	-	5,995	5,995
Total assets (1)	537,048	17,060,192	3,796	17,601,036	11,287,887*	28,888,923
Liabilities						
Deposits	27,173	123,288	2,400	152,861	96,848	249,709
Borrowings	334,702	14,459,856	-	14,794,558	-	14,794,558
Bonds payable	-	3,097,108	-	3,097,108	-	3,097,108
Other liabilities	449	4,292	2,771	7,512	660,657	668,169
Total liabilities	362,324	17,684,544	5,171	18,052,039	757,505	18,809,544
Equity						
Founder's capital	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	2,995,656	2,995,656
Other reserves	-	-	-	-	71,660	71,660
Net profit for the year	-	-	-	-	40,251	40,251
Capital	-	-	-	-	10,067,199	10,067,199
Guarantee fund	-	12,180	-	12,180	-	12,180
Total equity	-	12,180	-	12,180	10,067,199	10,079,379
Total liabilities and total equity (2)	362,324	17,696,724	5,171	18,064,219	10,824,704	28,888,923
Net assets/liabilities (1) – (2)	174,724	(636,532)	(1,375)**	(463,183)	463,183	-

* Amounts linked to a one-way currency clause represent HRK 221,732 thousand.

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

R

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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, 2016						
Assets						
Cash on hand and due from banks	1,606	301,338	1,584	304,528	186,167	490,695
Deposits with other banks	20,581	-	3,291	23,872	-	23,872
Loans to financial institutions	-	6,655,483	-	6,655,483	5,233,628	11,889,111
Loans to other customers	527,661	7,768,328	-	8,295,989	3,215,205	11,511,194
Assets available for sale	14,686	1,089,520	-	1,104,206	2,239,368	3,343,574
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	57,216	57,216
Non-current assets held for sale	-	-	-	-	17,230	17,230
Other assets	-	-	-	-	5,900	5,900
Total assets (1)	564,534	15,814,669	4,875	16,384,078	10,990,838*	27,374,916
Liabilities						
Deposits	48,380	42,778	3,459	94,617	48,227	142,844
Borrowings	315,433	13,076,316	-	13,391,749	-	13,391,749
Bonds payable	-	3,105,569	-	3,105,569	-	3,105,569
Other liabilities	-	2,895	2,840	5,735	691,039	696,774
Total liabilities	363,813	16,227,558	6,299	16,597,670	739,266	17,336,936
Equity						
Founder's capital	-	-	-	-	6,959,632	6,959,632
Retained earnings and reserves	-	-	-	-	2,682,131	2,682,131
Other reserves	-	-	-	-	70,317	70,317
Net profit for the year	-	-	-	-	313,525	313,525
Capital	-	-	-	-	10,025,605	10,025,605
Guarantee fund	-	12,375	-	12,375	-	12,375
Total equity	-	12,375	-	12,375	10,025,605	10,037,980
Total liabilities and total equity (2)	363,813	16,239,933	6,299	16,610,045	10,764,871	27,374,916
Net assets/liabilities (1) – (2)	200,721	(425,264)	(1,424)**	(225,967)	225,967	-

*Amounts linked to a one-way currency clause represent HRK 249,278 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 – 31 March 2017 (unaudited) (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 31 March 2017.

Volatility of the exchange rate EUR/HRK, determined using the standard deviation method on the changes of the foreign exchange rate EUR/HRK, equalled 1.6% in the previous 12 months.

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 Mar 31, 2017 %	Effect on profit Mar 31, 2017 HRK' 000	Change in currency rate Mar 31, 2016 %	Effect on profit Mar 31, 2016 HRK' 000
EUR	+1.6	3,293	+1,9	10,094
EUR	-1.6	(859)	-1,9	(6,319)

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 that was introduced in 2012.

The basic principles of operational risk management were identified in the umbrella act, Operational Risk Management Policies, the structure of management and accountability in the system was set up, the approach for the calculation of capital requirements for operational risk was determined, the recording and reporting system was established as well as the identification, measurement, assessment, control and monitoring of operational risk .

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.

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

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 Management 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 – 31 March 2017 (unaudited) (continued)

(All amounts are expressed in HRK thousand)

17. Fair value of financial assets and financial liabilities initially recognised 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 recognise 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 recognised 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 – 31 March 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

17. Fair value of financial assets and financial liabilities initially recognised 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 31 March 2017 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 – 31 March 2017 (unaudited) (continued)

(All amounts are expressed in HRK thousand)

17. Fair value of financial assets and financial liabilities initially recognised 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	Mar 31, 2017			Dec 31, 2016		
	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	285	-	-	286	-	-
Total financial assets at fair value through profit or loss	285	-	-	286	-	-
Assets available for sale:						
Debt instruments:						
Listed debt instruments:						
Bonds of the Ministry of Finance of the Republic of Croatia	899,526	-	-	925,887	-	-
Financial institution bonds	898	-	-	910	-	-
Corporate bonds	1,155	-	-	1,161	-	-
Treasury bills of the Ministry of Finance of the Republic of Croatia	1,603,266	-	-	1,500,420	-	-
Accrued interest	11,423	-	-	14,495	-	-
Unlisted debt instruments:						
Corporate bonds	-	-	495	-	-	502
Accrued interest	-	-	115	-	-	99
Total debt instruments	2,516,268	-	610	2,442,873	-	601
Equity instruments:						
Listed equity instruments:						
Corporate shares	13,336	-	-	10,938	-	-
Unlisted equity instruments:						
Investment in shares of foreign companies	-	32	-	-	32	-
Investment in financial institutions shares	-	161	-	-	161	-
Shares of foreign financial institutions – EIF	-	25,815	-	-	25,815	-
Corporate shares	-	-	-	-	-	-
Total equity instruments	13,336	25,600	-	10,938	26,008	-
Investments in investment funds:						
Shares classified as assets available for sale	905,633	-	-	909,614	-	-
Total investments in investment funds	905,633	-	-	909,614	-	-
Total assets available for sale	3,435,237	25,600	610	3,363,425	26,008	601

Treasury Bills of the Ministry of Finance of the Republic of Croatia were classified within Level 1 of the fair value hierarchy because credit institutions in the country started to list prices at Bloomberg, and quoted market price is used as the valuation technique.

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

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

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

Bank	Mar 31, 2017			Dec 31, 2016		
	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	857,540	-	-	884,914	-	-
Treasury bills of the Ministry of finance of the Republic of Croatia	1,603,266	-	-	1,500,420	-	-
Accrued interest	10,923	-	-	13,890	-	-
Unlisted debt instruments:						
Corporate bonds	-	-	495	-	-	502
Accrued interest	-	-	115	-	-	99
Total debt instruments	2,471,729	-	610	2,399,224	-	601
Equity instruments:						
Listed equity instruments:						
Corporate shares	13,336	-	-	10,938	-	-
Unlisted equity instruments:						
Investment in shares of foreign companies	-	32	-	-	32	-
Investment in financial institutions shares	-	25,407	-	-	161	-
Shares of foreign financial institutions – EIF	-	-	-	-	25,815	-
Corporate shares	-	-	-	-	-	-
Total equity instruments	13,336	25,600	13,336	10,938	26,008	-
Investments in investment funds:						
Shares classified as assets available for sale	901,521	-	-	906,803	-	-
Total investments in investment funds	901,521	-	-	906,803	-	-
Total assets available for sale	3,386,586	25,600	610	3,316,965	26,008	601

Treasury Bills of the Ministry of Finance of the Republic of Croatia were classified within Level 1 of the fair value hierarchy because credit institutions in the country started to list prices at Bloomberg, and quoted market price is used as the valuation technique.

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

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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 Management 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 – 31 March 2017 (unaudited) (continued)
(All amounts are expressed in HRK thousand)

18. Reporting by segments (continued)

Mar 31, 2017	Banking activities	Insurance activities	Other activities	Unallocated	Total
Net interest income	130,396	408	-	-	130,804
Net fee income	5,961	310	338	-	6,609
Net income/(expenses) from financial operations	(3,091)	(191)	(2)	-	(3,284)
Net premiums earned	-	1,894	-	-	1,894
Other income	2,044	21	69	(71)	2,063
Income from operating activities	135,310	2,442	405	(71)	138,086
Operating costs	(35,490)	(1,342)	(301)	71	(37,062)
Impairment loss and provisions	(59,569)	23	7	-	(59,539)
Expenses for insured cases	-	(30)	-	-	(30)
Net change in provisions	-	(21)	-	-	(21)
Other expenses	-	(35)	-	-	(35)
Operating expenses	(95,059)	(1,405)	(294)	71	(96,687)
Profit/(loss) before income tax	40,251	1,037	111	-	41,399
Income tax	-	-	-	-	-
Profit/(loss) for the year	40,251	1,037	111	-	41,399
Assets of segment	28,888,923	51,915	990	(36,652)	28,905,176
Total assets	28,888,923	51,915	990	(36,652)	28,905,176
Liabilities of segment	18,809,544	10,241	165	(25)	18,819,925
Total equity	10,079,379	4,174	525	1,173	10,085,251
Total liabilities and total equity	28,888,923	14,415	690	1,148	28,905,176

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 realisation, 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 – 31 March 2017 (unaudited) (continued)

(All amounts are expressed in HRK thousand)

18. Reporting by segments (continued)

Mar 31, 2016	Banking activities	Insurance activities	Other activities	Unallocated	Total
Net interest income	104,078	411	-	-	104,489
Net fee income	4,836	327	221	-	5,384
Net income/(expenses) from financial operations	(14,042)	(116)	1	-	(14,157)
Net premiums earned	-	1,586	-	-	1,586
Other income	2,033	22	72	(75)	2,052
Income from operating activities	96,905	2,230	294	(75)	99,354
Operating costs	(39,543)	(1,265)	(257)	76	(40,989)
Impairment loss and provisions	(4,450)	(8)	(8)	-	(4,466)
Expenses for insured cases	-	(13)	-	-	(13)
Net change in provisions	-	(665)	-	-	(665)
Other expenses	-	(136)	-	-	(136)
Operating expenses	(43,993)	(2,087)	(265)	76	(46,269)
Profit/(loss) before income tax	52,912	143	29	1	53,085
Income tax	-	-	-	-	-
Profit/(loss) for the year	52,912	143	29	1	53,085
Dec 31, 2016					
Assets of segment	27,374,916	51,667	895	(36,656)	27,390,822
Total assets	27,374,916	51,667	895	(36,656)	27,390,822
Liabilities of segment	17,336,936	11,049	159	(30)	17,348,114
Total equity	10,037,980	3,119	436	1,173	10,042,708
Total liabilities and total equity	27,374,916	14,168	595	1,143	27,390,822

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 – 31 March 2017 (unaudited) (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	
	Mar 31, 2017	Dec 31, 2016	Mar 31, 2017	Dec 31, 2016
Original own funds – Tier 1	9,996,687	9,956,604	9,995,539	9,955,288
Additional own funds – Tier 2	336,526	333,571	336,526	333,571
Total own funds	10,333,213	10,290,175	10,332,065	10,288,859
Risk weighted assets	16,476,520	16,415,582	16,508,689	16,447,428
Capital requirements for currency risk	318,023	609,631	305,430	597,377
Total capital requirements	16,794,543	17,025,213	16,814,119	17,044,805
	%	%	%	%
Capital ratio (Tier 1)	59.52	58.48	59.45	58.41
Capital adequacy ratio	61.53	60.44	61.45	60.36
	HRK '000	HRK '000	HRK '000	HRK '000
Own funds needed for ensuring capital adequacy according to regulatory requirements	1,343,563	1,362,017	1,345,130	1,363,584

Minimum capital adequacy ratio as of the reporting date, i.e. 31 March 2017 was 8% (31 December 2016: 8%).

Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations for the period 1 January – 31 March 2017 (unaudited) (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 Management 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 Management 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 31 March 2017 was 8 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

Dismissal of a Member of the Supervisory Board of HBOR

On 27 April 2017, the Government of the Republic of Croatia passed the Decision on Dismissing the Minister of Environmental Protection and Energy, Mr Slaven Dobrović, DSc from his position of Minister of Environmental Protection and Energy. As a consequence of this Decision and pursuant to the Act on HBOR, the term of office of Mr Slaven Dobrović, DSc as a Member of the Supervisory Board of HBOR was terminated that had started by the appointment of Mr Dobrović pursuant to the Decision of the Government of the Republic of Croatia dated 10 November 2016.

Appendix - financial performance of the HKO Group
Statement of Profit or Loss and Other Comprehensive Income
for the period 1 January – 31 March (unaudited)
(All amounts are expressed in HRK thousand)

	Mar 31, 2017	Mar 31, 2016
Premium earned		
Gross premium written	2,307	2,715
Premium impairment allowance originated and reserved on collection	(15)	(17)
Gross outward reinsurance premium	(647)	(1,161)
Net premium written	1,645	1,537
Changes in the gross unearned premium reserve	731	291
Changes in the gross unearned premium reserve, reinsurer's share	(497)	(259)
Net premium earned	1,879	1,569
Fee and commission income	648	548
Net investment income	204	287
Other operating income	19	19
Net income	2,750	2,423
Gross expense for returned premiums	(61)	(305)
Reinsurer's share	26	169
Gross reserve for returned premiums	(99)	(22)
Reinsurer's share	34	(4)
Net expense and reserve for returned premiums	(100)	(162)
Claims incurred	(74)	(22)
Claims incurred, reinsurer's share	44	9
Change in the claims provision	127	(1,246)
Change in the claims provision, share of reinsurance	(83)	607
Net claims incurred	14	(652)
Marketing and provision expenses	(179)	(107)
Administrative expenses	(1,368)	(1,305)
Other operating expenses	20	(33)
Net exchange differences other than those on financial instruments	11	8
Profit before income tax	1,148	172
Income tax	-	-
Profit/(loss) for the year	1,148	172
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Gains on revaluation of financial assets available for sale	731	676
Decrease in the fair value of financial assets available for sale	(740)	(56)
Transfer of realised gains on asset available for sale to statement of profit or loss	(1)	(16)
Transfer of realised losses on asset available for sale to statement of profit or loss	6	
Deferred tax	(1)	(121)
Total items that may be reclassified subsequently to profit or loss:	(5)	483
Other comprehensive income after income tax	(5)	483
Total comprehensive income after income tax	1,143	655
Attributable to:		
Equity holders of the parent	1,143	655

Appendix - financial performance of the HKO Group Statement of Financial Position as of (unaudited)

(All amounts are expressed in HRK thousand)

	Mar 31, 2017	Dec 31, 2016
Assets		
Non-current assets		
Property and equipment	75	86
Intangible assets	12	5
Held to maturity investments	1,400	1,422
Deferred tax	183	54
Total non-current assets	1,670	1,567
Current assets		
Investments available for sale	48,651	46,459
Investments at fair value through profit or loss	285	286
Receivables from insurance operations	738	985
Other receivables	310	2,185
Cash and cash equivalents	726	551
Total current assets	50,710	50,466
Total assets	52,380	52,033
Equity and liabilities		
Equity		
Share capital	37,500	37,500
Accumulated losses	1,167	(148)
Other reserves	2,183	2,188
Profit for the year	1,148	1,315
Total equity	41,998	40,855
Technical provisions		
Gross technical provisions	13,466	14,225
Technical provisions, reinsurer's share	(5,873)	(6,419)
	7,593	7,806
Current liabilities		
Liabilities from insurance operations	655	1,190
Other liabilities	2,134	2,182
Total liabilities	2,789	3,372
Total equity and liabilities	52,380	52,033

Appendix - financial performance of the HKO Group
Statement of Cash Flows
for the period 1 January – 31 March (unaudited)
(All amounts are expressed in HRK thousand)

	Mar 31, 2017	Mar 31, 2016
Operating activities		
Profit before income tax	1,148	172
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>		
Depreciation	15	21
Impairment loss and provisions	(30)	16
Income tax	-	-
Accrued interest	100	53
<i>Operating profit before working capital changes</i>	<i>1,233</i>	<i>262</i>
Changes in operating assets and liabilities:		
Net realised (gain) on assets available for sale	(1)	(17)
Decrease of discount in assets available for sale and assets held to maturity	106	100
Net gain/(losses) on financial assets at fair value through profit or loss	(3)	(73)
Premium receivables	231	(166)
Net decrease/(increase) in other assets	1,730	(106)
Net decrease of assets and liabilities from insurance operations	(535)	(441)
Net (decrease)/increase in technical provisions	(213)	633
Net increase/(decrease) in other liabilities	12	(26)
Net cash provided by operating activities	2,560	166
Investment activities		
(Purchase) of financial assets at fair value through profit or loss	-	(1,450)
Sale of financial assets at fair value through profit or loss	-	3,522
Net (purchase) of assets available for sale	(5,947)	(2,784)
Collection of assets held to maturity when due	3,372	218
Net (purchase) of property, plant and equipment and intangible assets	(11)	23
Net cash (used in) investment activities	(2,586)	(471)
Effect of foreign currency to cash and cash equivalents		
Net foreign exchange	201	213
Net effect	201	213
Net increase/(decrease) in cash and cash equivalents	175	(92)
Balance as of 1 January	551	242
Net increase/(decrease) in cash	175	(92)
Balance as of 31 March	726	150

Appendix - financial performance of the HKO Group
Statement of Changes in Equity
for the period 1 January – 31 March (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 2016	37,500	(1,184)	874	1,036	38,226	38,226
Profit for the year	-	-	-	172	172	172
Other comprehensive income	-	-	483	-	483	483
Total comprehensive income	-	-	483	172	655	655
Transfer of profit 2015 to retained earnings	-	1,036	-	(1,036)	-	-
Balance as of 31 March 2016	37,500	(148)	1,357	172	38,881	38,881
Balance as of 1 January 2017	37,500	(148)	2,188	1,315	40,855	40,855
Profit for the year	-	-	-	1,148	1,148	1,148
Other comprehensive income	-	-	(5)	-	(5)	(5)
Total comprehensive income	-	-	(5)	1,148	1,143	1,143
Transfer of profit 2016 to retained earnings	-	1,315	-	(1,315)	-	-
Balance as of 31 March 2017	37,500	1,167	2,183	1,148	41,998	41,998