

**CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT**

**Unaudited Consolidated Interim Condensed Financial Statements  
for the Period  
1 January – 31 March 2014**

Zagreb, May 2014

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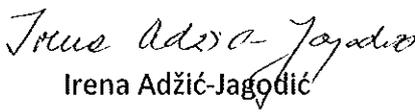
Statement of Persons Responsible for Consolidated Interim Condensed Financial Statements  
for the Period 1 January – 31 March 2014

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We confirm that, to the best of our knowledge, the Consolidated Interim Condensed Financial Statements of the Croatian Bank for Reconstruction and Development Group have been prepared in accordance with International Financial Reporting Standards applicable for the preparation of interim condensed financial statements, and give a true and fair view of assets, liabilities, financial position, financial performance and cash flows for the reporting period.

President of the Managing Board  
  
Anton Kovačev



Accounting Division Executive Director  
  
Irena Adžić-Jagodić

Zagreb, 30 April 2014

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	2014	2013
Interest income	4	229,525	241,451
Interest expense	5	(123,523)	(117,211)
<b>Net interest income</b>		<b>106,002</b>	<b>124,240</b>
Fee income		2,744	2,221
Fee expense		(98)	(95)
<b>Net fee income</b>		<b>2,646</b>	<b>2,126</b>
Net gains/(losses) on financial operations		442	10,295
Other income		1,395	1,515
		<b>110,485</b>	<b>138,176</b>
Operating expenses	6	(51,472)	(29,233)
Impairment loss and provisions	7	(11,867)	(65,937)
<b>Profit before income tax</b>		<b>47,146</b>	<b>43,006</b>
Income tax		-	-
<b>Profit for the year</b>		<b>47,146</b>	<b>43,006</b>
<b>Attributable to:</b>			
Equity holders of the parent		<b>47,146</b>	<b>43,006</b>

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

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

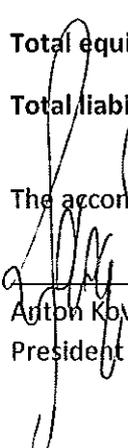
	2014	2013
<b>Profit for the year</b>	<b>47,146</b>	<b>43,006</b>
<b>Items that are not transferred subsequently to profit or loss:</b>		
Deferred tax – adjustment for previous period	(17)	-
<b>Total items that are not transferred subsequently to profit or loss</b>	<b>(17)</b>	<b>-</b>
<b>Items that may be reclassified subsequently to profit or loss:</b>		
<b>Other comprehensive income</b>		
Increase in fair value of assets available for sale	11,424	7,828
Decrease in fair value of assets available for sale	(644)	(14,247)
Net foreign exchange on available for sale equity instruments	39	67
Transfer of realized gains on assets available for sale to statement of profit or loss	(5)	(199)
Transfer of realized losses on assets available for sale to statement of profit or loss	1,069	-
Deferred tax – other comprehensive income	(82)	(1)
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>11,801</b>	<b>(6,552)</b>
<b>Other comprehensive income after income tax</b>	<b>11,784</b>	<b>(6,552)</b>
<b>Total comprehensive income after income tax</b>	<b>58,930</b>	<b>36,454</b>
<b>Attributable to:</b>		
Equity holders of the parent	58,930	36,454

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

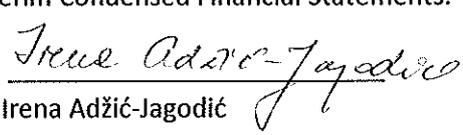
Consolidated Interim Condensed Financial Statements of the Group  
Statement of Financial Position as of (unaudited)  
(All amounts are expressed in HRK thousand)

	Notes	Mar 31, 2014	Dec 31, 2013
<b>Assets</b>			
Cash on hand and due from banks	8	533,906	2,115,098
Deposits with other banks		765,738	256,004
Loans to banks	9	13,995,719	14,036,622
Loans to other customers	10	8,341,930	8,099,348
Financial assets at fair value through profit or loss		1,471	1,423
Assets available for sale	11	1,919,669	1,543,243
Assets held to maturity		1,484	1,603
Investments in associates		-	-
Property, plant and equipment and intangible assets		63,886	65,214
Non-current assets held for sale		34,234	34,220
Other assets		6,601	15,416
<b>Total assets</b>		<b>25,664,638</b>	<b>26,168,191</b>
<b>Liabilities</b>			
Deposits		152,831	166,776
Borrowings	12	11,621,813	12,190,252
Bonds payable	13	3,869,748	3,809,639
Other liabilities		1,073,003	1,113,245
<b>Total liabilities</b>		<b>16,717,395</b>	<b>17,279,912</b>
<b>Equity</b>			
Founder's capital		6,543,739	6,543,739
Retained earnings and reserves		2,306,634	2,117,372
Other reserves		37,184	25,400
Profit for the year		47,146	189,262
<b>Total equity attributable to equity holders of the parent</b>		<b>8,934,703</b>	<b>8,875,773</b>
Guarantee fund		12,540	12,506
<b>Total equity</b>		<b>8,947,243</b>	<b>8,888,279</b>
<b>Total liabilities and total equity</b>		<b>25,664,638</b>	<b>26,168,191</b>

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

  
Anton Kovačev  
President of the Managing Board



  
Irena Adžić-Jagodica  
Accounting Division Executive Director

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)

	Notes	2014	2013
<b>Operating activities</b>			
Profit before income tax		47,146	43,006
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation		2,035	2,005
Income tax		98	1
Impairment loss and provisions		11,867	65,937
Accrued interest		64,318	13,169
Deferred fees		5,157	6,165
<i>Operating profit before working capital changes</i>		<i>130,621</i>	<i>130,283</i>
<i>Changes in operating assets and liabilities:</i>			
Net (increase)/decrease in deposits with other banks, before provision for impairment		(515,195)	5,726
Net decrease in loans to banks, before provision for impairment		82,914	540,137
Net (increase) in loans to other customers, before provision for impairment		(304,221)	(1,121,174)
Net (gain) on financial assets at fair value through profit or loss		(6)	(4)
Net realized losses/(gain) on assets available for sale		1,064	(199)
(Increase) of discount in assets available for sale, assets held to maturity and bonds payable		(3,592)	(3,966)
Net (increase) in non-current assets held for sale		(349)	-
Net decrease/(increase) in other assets, before provision for impairment		8,831	(32,312)
Net (decrease) in deposits from banks and companies		(13,945)	(14,947)
Net (decrease) in other liabilities, before provisions		(56,441)	(34,379)
<b>Net cash used in operating activities</b>		<b>(670,319)</b>	<b>(530,835)</b>
<b>Investment activities</b>			
(Purchase) of financial assets at fair value through profit or loss		(2,200)	(505)
Sale of financial assets at fair value through profit or loss		2,160	350
Net (purchase) of assets available for sale		(799,666)	(284,995)
Sale of assets available for sale		436,567	215,000
(Purchase) of assets held to maturity		(965)	-
Collection of assets held to maturity when due		1,071	-
Net (purchase) of property, plant and equipment and intangible assets		(706)	(1,110)
<b>Net cash used in investment activities</b>		<b>(363,739)</b>	<b>(71,260)</b>
<b>Financing activities</b>			
Increase in borrowings – withdrawn funds		1,150,090	543,927
(Decrease) in borrowings – repayments of principal		(1,751,188)	(445,273)
<b>Net cash provided by financing activities</b>		<b>(601,098)</b>	<b>98,654</b>
<b>Effect of foreign currency to cash and cash equivalents</b>			
Net foreign exchange		36,599	58,788
<b>Net effect</b>		<b>36,599</b>	<b>58,788</b>
Net (decrease) in cash and cash equivalents		(1,598,557)	(444,653)
Balance as of 1 January, before provisions		2,133,683	2,879,806
Net (decrease) in cash		(1,598,557)	(444,653)
<b>Balance as of 31 March, before provisions</b>	<b>8</b>	<b>535,126</b>	<b>2,435,153</b>
<b>Additional note - Operational cash flows</b>			
Interest paid		68,517	77,058
Interest received		177,973	150,322

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

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
<b>Balance as of 1 January 2013</b>	<b>5,943,739</b>	<b>1,983,293</b>	<b>37,256</b>	<b>134,079</b>	<b>8,098,367</b>
Profit for the year	-	-	-	43,006	43,006
Other comprehensive income	-	-	(6,552)	-	(6,552)
Total comprehensive income	-	-	(6,552)	43,006	36,454
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2012 to retained earnings	-	134,079	-	(134,079)	-
<b>Balance as of 31 March 2013</b>	<b>5,943,739</b>	<b>2,117,372</b>	<b>30,704</b>	<b>43,006</b>	<b>8,134,821</b>
<b>Balance as of 1 January 2014</b>	<b>6,543,739</b>	<b>2,117,372</b>	<b>25,400</b>	<b>189,262</b>	<b>8,875,773</b>
Profit for the year	-	-	-	47,146	47,146
Other comprehensive income	-	-	11,784	-	11,784
Total comprehensive income	-	-	11,784	47,146	58,930
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2013 to retained earnings	-	189,262	-	(189,262)	-
<b>Balance as of 31 March 2014</b>	<b>6,543,739</b>	<b>2,306,634</b>	<b>37,184</b>	<b>47,146</b>	<b>8,934,703</b>

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

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	2014	2013
Interest income	4	229,157	241,045
Interest expense	5	(123,523)	(117,211)
<b>Net interest income</b>		<b>105,634</b>	<b>123,834</b>
Fee income		2,289	1,872
Fee expense		(98)	(95)
<b>Net fee income</b>		<b>2,191</b>	<b>1,777</b>
Net gains/(losses) on financial operations		412	10,275
Other income		383	850
		<b>108,620</b>	<b>136,736</b>
Operating expenses	6	(49,787)	(27,711)
Impairment loss and provisions	7	(11,961)	(65,948)
<b>Profit before income tax</b>		<b>46,872</b>	<b>43,077</b>
Income tax		-	-
<b>Profit for the year</b>		<b>46,872</b>	<b>43,077</b>
<b>Attributable to:</b>			
<b>Equity holders of the parent</b>		<b>46,872</b>	<b>43,077</b>

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

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

	2014	2013
<b>Profit for the year</b>	<b>46,872</b>	<b>43,077</b>
<b>Items that are not transferred subsequently to profit or loss:</b>		
Deferred tax – adjustment for previous period	-	-
<b>Total items that are not transferred subsequently to profit and loss</b>	<b>-</b>	<b>-</b>
<b>Items that may be reclassified subsequently to profit or loss:</b>		
<b>Other comprehensive income</b>		
Increase in fair value of assets available for sale	10,992	7,815
Decrease in fair value of assets available for sale	(623)	(14,245)
Net foreign exchange on available for sale equity instruments	39	67
Transfer of realized gains on assets available for sale to statement of profit or loss	-	(199)
Transfer of realized losses on assets available for sale to statement of profit or loss	1,069	-
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>11,477</b>	<b>(6,562)</b>
<b>Other comprehensive income after tax</b>	<b>11,477</b>	<b>(6,562)</b>
<b>Total comprehensive income after tax</b>	<b>58,349</b>	<b>36,515</b>
<b>Attributable to:</b>		
Equity holders of the parent	58,349	36,515

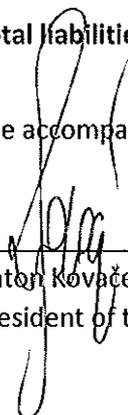
The accompanying selected notes are an integral part of this Interim Condensed Financial Statements.

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

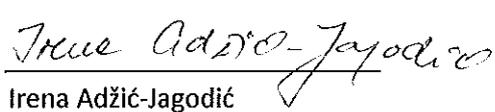
(All amounts are expressed in HRK thousand)

	Notes	Mar 31, 2014	Dec 31, 2013
<b>Assets</b>			
Cash on hand and due from banks	8	533,346	2,114,959
Deposits with other banks		745,715	232,187
Loans to banks	9	13,995,719	14,036,622
Loans to other customers	10	8,341,930	8,099,348
Assets available for sale	11	1,902,229	1,532,042
Investments in subsidiaries		36,124	36,124
Investments in associates		-	-
Property, plant and equipment and intangible assets		63,578	64,880
Non-current assets held for sale		34,234	34,220
Other assets		4,529	12,203
<b>Total assets</b>		<b>25,657,404</b>	<b>26,162,585</b>
<b>Liabilities</b>			
Deposits		152,831	166,776
Borrowings	12	11,621,813	12,190,252
Bonds payable	13	3,869,748	3,809,639
Other liabilities		1,065,840	1,107,129
<b>Total liabilities</b>		<b>16,710,232</b>	<b>17,273,796</b>
<b>Equity</b>			
Founder's capital		6,543,739	6,543,739
Retained earnings and reserves		2,308,560	2,119,402
Other reserves		35,461	23,984
Profit for the year		46,872	189,158
<b>Capital</b>		<b>8,934,632</b>	<b>8,876,283</b>
Guarantee fund		12,540	12,506
<b>Total equity</b>		<b>8,947,172</b>	<b>8,888,789</b>
<b>Total liabilities and total equity</b>		<b>25,657,404</b>	<b>26,162,585</b>

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

  
Anton Kovacev  
President of the Managing Board



  
Irena Adžić-Jagodić  
Accounting Division Executive Director

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)

	Notes	2014	2013
<b>Operating activities</b>			
Profit before income tax		46,872	43,077
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation		1,996	1,944
Impairment loss and provisions		11,961	65,948
Accrued interest		64,367	13,501
Deferred fees		5,157	6,165
<i>Operating profit before working capital changes</i>		<i>130,353</i>	<i>130,635</i>
<i>Changes in operating assets and liabilities:</i>			
Net (increase)/decrease in deposits with other banks, before provision for impairment		(519,039)	5,727
Net decrease in loans to banks, before provision for impairment		82,914	540,137
Net (increase) in loans to other customers, before provision for impairment		(304,221)	(1,121,175)
Net realized (gain)/losses on assets available for sale		1,069	(199)
(Increase) of discount in assets available for sale and bonds payable		(3,605)	(3,965)
Net increase in non-current assets held for sale		(349)	-
Net decrease/(increase) in other assets, before provision for impairment		7,632	(33,011)
Net (decrease) in deposits from banks and companies		(13,945)	(14,947)
Net (decrease) in other liabilities, before provisions		(57,327)	(34,299)
<b>Net cash used in operating activities</b>		<b>(676,518)</b>	<b>(531,097)</b>
<b>Investment activities</b>			
Net (purchase) of assets available for sale		(793,779)	(284,995)
Sale of assets available for sale		436,492	215,000
Net (purchase) of property, plant and equipment and intangible assets		(694)	(929)
<b>Net cash used in investment activities</b>		<b>(357,981)</b>	<b>(70,924)</b>
<b>Financing activities</b>			
Increase in borrowings – withdrawn funds		1,150,090	543,927
(Decrease) in borrowings – repayments of principal		(1,751,188)	(445,273)
<b>Net cash provided by financing activities</b>		<b>(601,098)</b>	<b>98,654</b>
<b>Effect of foreign currency to cash and cash equivalents</b>			
Net foreign exchange		36,619	58,808
<b>Net effect</b>		<b>36,619</b>	<b>58,808</b>
Net (decrease) in cash and cash equivalents		(1,598,978)	(444,559)
Balance as of 1 January, before provisions		2,133,544	2,879,461
Net (decrease) in cash		(1,598,978)	(444,559)
<b>Balance as of 31 March, before provisions</b>	<b>8</b>	<b>534,566</b>	<b>2,434,902</b>
<b>Additional note - Operational cash flows</b>			
Interest paid		68,517	77,058
Interest received		177,584	150,249

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

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
<b>Balance as of 1 January 2013</b>	<b>5,943,739</b>	<b>1,984,984</b>	<b>35,912</b>	<b>134,418</b>	<b>8,099,053</b>
Profit for the year	-	-	-	43,077	43,077
Other comprehensive income	-	-	(6,562)	-	(6,562)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(6,562)</b>	<b>43,077</b>	<b>36,515</b>
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2012 to retained earnings	-	134,418	-	(134,418)	-
<b>Balance as of 31 March 2013</b>	<b>5,943,739</b>	<b>2,119,402</b>	<b>29,350</b>	<b>43,077</b>	<b>8,135,568</b>
<b>Balance as of 1 January 2014</b>	<b>6,543,739</b>	<b>2,119,402</b>	<b>23,984</b>	<b>189,158</b>	<b>8,876,283</b>
Profit for the year	-	-	-	46,872	46,872
Other comprehensive income	-	-	11,477	-	11,477
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>11,477</b>	<b>46,872</b>	<b>58,349</b>
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2013 to retained earnings	-	189,158	-	(189,158)	-
<b>Balance as of 31 March 2014</b>	<b>6,543,739</b>	<b>2,308,560</b>	<b>35,461</b>	<b>46,872</b>	<b>8,934,632</b>

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

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## 1. General information

### 1.1. Group:

The Croatian Bank for Reconstruction and Development („HBOR“ or „the Bank“) is the parent company of the Croatian Bank for Reconstruction and Development Group („Group“) that operates in the Republic of Croatia. The Group primarily performs banking activities and, to the lesser extent, insurance activities and credit risk assessment activities. These Financial Statements include 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 2014, the Group had 311 employees (31 March 2013: 305 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.

As of 31 March 2014, there were 297 employees at the Bank (31 March 2013: 292 employees).

#### 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.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

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## **1. General information (continued)**

### **1.2.1. Activities of the Bank (continued):**

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 2014 have been prepared in accordance with the International Accounting Standard 34 Interim Financial Reporting.

The Consolidated Interim Condensed Financial Standards for the period 1 January to 31 March 2014 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 2013.

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 2014, the Statement of Profit or Loss for the period 1 January – 31 March 2014, the Statement of Profit or Loss and other Comprehensive Income for the period 1 January – 31 March 2014, the Statement of Cash Flows for the period 1 January – 31 March 2014, the Statement of Changes in Equity for the period 1 January – 31 March 2014, and the accompanying Notes on significant accounting policies and other explanatory information.

These Financial Statements were accepted by the Supervisory Board of HBOR on its 135<sup>th</sup> meeting held on 30 May 2014.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

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### 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 2013.

#### 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.

*New and amended International Financial Reporting Standards effective in the reporting period:*

- Amended IAS 32 Financial instruments: Presentation – Offsetting of Financial Assets and Liabilities (effective for periods beginning on or after 1 January 2014) which amends the provisions of the existing Standard with an objective of clarifying inconsistencies in the current practice when applying the offsetting criteria. The amendments clarify the meaning of the expression “currently has a legally enforceable right of set-off” and the provision that some gross settlement systems may be considered equivalent to net settlement.

The Standard will not affect the financial statements of the Group.

- New and amended standards referring to consolidation, joint arrangements, associates and disclosures about related information, that include:
  - Amended standards: IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures and
  - New standards: IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interest in Other Entities.

Amendments to IAS 27 and IAS 28 are results of the adoption of new standards that regulate consolidation, joint arrangements, associates and disclosures of interest in other entities.

IFRS 10 introduces new definition of the control that is focused to on whether the Group has the power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns. All three of these criteria must be met for an investor to have control over an investee.

IFRS 11 Joint arrangements the core principle of which is that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

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

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

*New and amended International Financial Reporting Standards effective in the reporting period (continued):*

IFRS 12 requires the disclosure of information needed in consolidated financial statements about interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities. The objective of this Standard is to achieve the level of information that enables users of financial statements of the reporting entity to evaluate the nature of and risks associated with its interests in other entities, as well as the effects of those interests on financial statements of the reporting entity.

Pursuant to the provisions of the IFRS 10 the Group re-assessed the existence and the level of control over the investees which would not have the effect to the financial statements of the reporting period.

- IFRS 9 Financial Instruments: Classification and measurement reflects the International Accounting Standards Board (IASB) intention to replace IAS 39 in its entirety and is applicable to the classification and measurement of financial assets as defined by IAS 39. In November 2013 IASB amended the Standard by the requirements relating to the hedge accounting.

The outstanding phases of the finalization of the Standard include the impairment methodology. Also, in November 2013 IASB published that mandatory effective date of this Standard will be determined when the outstanding phases are finalised.

Considering the extensiveness of the IAS 39 replacement project and timeframe, as well as the importance of the impairment methodology to the financial statements, the Group will evaluate and quantify potential effects after the finalization of all project phases in order to estimate a comprehensive picture.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

**4. Interest income**

Interest income by borrowers:

	Group		Bank	
	Mar 31, 2014	Mar 31, 2013	Mar 31, 2014	Mar 31, 2013
Public sector	15,851	16,080	15,685	16,043
State-owned companies	7,770	6,124	7,770	6,124
Foreign companies	789	1,439	789	1,439
Domestic companies	91,781	94,819	91,781	94,819
Domestic financial institutions	90,016	96,588	89,814	96,219
Foreign financial institutions	129	1	129	1
Penalty interest	2,577	2,732	2,577	2,732
Other	20,612	23,668	20,612	23,668
	<b>229,525</b>	<b>241,451</b>	<b>229,157</b>	<b>241,045</b>

Interest income by type of facility:

	Group		Bank	
	Mar 31, 2014	Mar 31, 2013	Mar 31, 2014	Mar 31, 2013
Interest on loans				
- banks	91,485	98,775	91,485	98,775
- other customers	128,384	133,141	128,384	133,141
	<b>219,869</b>	<b>231,916</b>	<b>219,869</b>	<b>231,916</b>
Investments in securities	9,267	9,061	9,100	9,024
Deposits	388	474	188	105
Interest income on cash	1	-	-	-
	<b>229,525</b>	<b>241,451</b>	<b>229,157</b>	<b>241,045</b>

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 rate subsidies provided for the final user is presented as deferred interest income and is recognized in the statement of profit or loss and other comprehensive income on a time basis during the repayment of the loan. Interest income earned on this basis for the period 1 January to 31 March 2014 amounts to HRK 56,561 thousand (1 January to 31 March 2013: HRK 61,835 thousand).

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

## 5. Interest expense

Interest expense by type of payee:

	Group		Bank	
	Mar 31, 2014	Mar 31, 2013	Mar 31, 2014	Mar 31, 2013
Domestic banks	5,903	16,901	5,903	16,901
Foreign banks	117,620	100,310	117,620	100,310
	<b>123,523</b>	<b>117,211</b>	<b>123,523</b>	<b>117,211</b>

Interest expense by type of facility:

	Group		Bank	
	Mar 31, 2014	Mar 31, 2013	Mar 31, 2014	Mar 31, 2013
Borrowings	73,735	82,725	73,735	82,725
Debt securities	49,788	34,486	49,788	34,486
	<b>123,523</b>	<b>117,211</b>	<b>123,523</b>	<b>117,211</b>

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

## 6. Operating expenses

Operating expenses can be shown as follows:

	Group		Bank	
	Mar 31, 2014	Mar 31, 2013	Mar 31, 2014	Mar 31, 2013
General and administrative expenses:				
Employee expenses	18,098	15,905	17,399	15,350
Depreciation	2,035	2,005	1,996	1,944
Administration expenses	1,934	2,081	1,903	2,038
Material and services	5,089	4,441	4,734	4,100
	<u>27,156</u>	<u>24,432</u>	<u>26,032</u>	<u>23,432</u>
Other expenses:				
Taxes and contributions	117	54	117	53
Other expenses	24,199	4,747	23,638	4,226
	<u>24,316</u>	<u>4,801</u>	<u>23,755</u>	<u>4,279</u>
	<u><b>51,472</b></u>	<u><b>29,233</b></u>	<u><b>49,787</b></u>	<u><b>27,711</b></u>

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

	Group		Bank	
	Mar 31, 2014	Mar 31, 2013	Mar 31, 2014	Mar 31, 2013
Changes in claims provisions	80	926	-	-
Changes in claims provisions, share of reinsurance	204	(546)	-	-
<b>Expenses of insurance operations</b>	<u><b>284</b></u>	<u><b>380</b></u>	<u><b>-</b></u>	<u><b>-</b></u>

From the beginning of operations of the subsidiary company, provisions for incurred but not reported losses (IBNR) was calculated by the method of expected loss quota taking into account that this is a newly established company for insurance as well as the need for necessary data for the utilisation of sophisticated actuarial methods.

In the meantime, fluctuation reserves were formed in a significant amount which, as of 31 March 2014, are used for balancing the result instead of IBNR. For this reason, the appointed authorised actuary of the company evaluates that further increase in gross IBNR as compared to 31 December 2013 is not necessary.

Furthermore, due to the changed terms and conditions of reinsurance contracts since 1 January 2014, a reinsurance share in IBNR decreased as of 31 March 2014.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

**7. Impairment loss and provisions:**

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

	<b>Group</b>		<b>Bank</b>	
	<b>Mar 31, 2014</b>	<b>Mar 31, 2013</b>	<b>Mar 31, 2014</b>	<b>Mar 31, 2013</b>
Impairment losses on cash on hand and due from banks	(17,365)	(4,384)	(17,365)	(4,384)
Impairment losses on deposits with other banks	5,554	(58)	5,554	(58)
Impairment losses on loans to banks	(46,952)	(12,718)	(46,952)	(12,718)
Impairment losses on loans to other customers and interest	54,310	66,284	54,310	66,284
Impairment losses on non-current assets held for sale	335	(25)	335	(25)
Impairment losses on assets available for sale	-	(1,408)	-	(1,408)
Impairment losses on other assets	(41)	562	42	533
<b>Total increase in provision for impairment losses on assets</b>	<b>(4,159)</b>	<b>48,253</b>	<b>(4,076)</b>	<b>48,224</b>
Provision for guarantees and commitments	15,505	17,182	15,505	17,182
Other provisions	521	502	532	542
<b>Total increase/(decrease) in provision for guarantees and commitments and other provisions</b>	<b>16,026</b>	<b>17,684</b>	<b>16,037</b>	<b>17,724</b>
<b>Total increase of provisions</b>	<b>11,867</b>	<b>65,937</b>	<b>11,961</b>	<b>65,948</b>

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 contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

**8. Cash on hand and due from banks**

	Group		Bank	
	Mar 31, 2014	Dec 31, 2013	Mar 31, 2014	Dec 31, 2013
Account with the Croatian National Bank	491,020	2,079,550	491,020	2,079,550
Due from domestic banks in foreign currency	46	91	46	91
Due from foreign banks in foreign currency	43,500	53,903	43,500	53,903
Due from domestic banks in HRK	560	139	-	-
	<u>535,126</u>	<u>2,133,683</u>	<u>534,566</u>	<u>2,133,544</u>
Provisions for impairment losses	(1,220)	(18,585)	(1,220)	(18,585)
	<u>533,906</u>	<u>2,115,098</u>	<u>533,346</u>	<u>2,114,959</u>

On 22 January 2014 HBOR entered into an addendum to the loan contract with the syndicate of domestic banks relating to the implementation of the Loan Programme for the Development of the Economy by means of which the commitment period is extended until no later than 27 January 2014, simultaneously extending the placement of loan funds under this Programme.

On 31 January 2014, HBOR made the mandatory prepayment of principal in the amount of funds undisbursed under the mentioned Programme of HRK 1,644,709 thousand in accordance with the loan contract dated 12 June 2012.

The balance of undisbursed funds in the transaction account with the Croatian National Bank as of 31 March 2014 amounts to HRK 78,414 thousand (31 December 2013: HRK 1,804,489 thousand), and relates to commitments until 27 January 2014.

Due from foreign banks in foreign currency represents the amount drawn from a loan tranche approved by the International Bank for Reconstruction and Development (IBRD) under the credit line „Croatia Export Finance Intermediation Loan Project“ and amounts to EUR 4,769 thousand (31 December 2013: EUR 4,769 thousand).

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

**9. Loans to banks**

	Group		Bank	
	Mar 31, 2014	Dec 31, 2013	Mar 31, 2014	Dec 31, 2013
Loans due within one year	4,906,541	5,074,004	4,906,541	5,074,004
Loans due in over one year	9,763,665	9,875,956	9,763,665	9,875,956
Accrued interest	17,710	23,426	17,710	23,426
Deferred recognition of loan origination fees	(73,211)	(73,985)	(73,211)	(73,985)
	<b>14,614,705</b>	<b>14,899,401</b>	<b>14,614,705</b>	<b>14,899,401</b>
Provisions for impairment losses	(618,986)	(862,779)	(618,986)	(862,779)
	<b>13,995,719</b>	<b>14,036,622</b>	<b>13,995,719</b>	<b>14,036,622</b>

Loans to banks by purpose of the loan programmes:

	Group		Bank	
	Mar 31, 2014	Dec 31, 2013	Mar 31, 2014	Dec 31, 2013
Loan programme for reconstruction and development of the economy	4,143,545	4,340,739	4,143,545	4,340,739
Export financing	3,898,141	3,991,785	3,898,141	3,991,785
Loan programme for reconstruction and development of infrastructure in the	1,467,664	1,424,941	1,467,664	1,424,941
Loan programme for small and medium-sized enterprises	3,679,243	3,823,703	3,679,243	3,823,703
Loan programme for war-torn and demolished housing and business facilities	14,635	15,150	14,635	15,150
Other	1,466,978	1,353,642	1,466,978	1,353,642
Accrued interest	17,710	23,426	17,710	23,426
Deferred recognition of loan fees	(73,211)	(73,985)	(73,211)	(73,985)
	<b>14,614,705</b>	<b>14,899,401</b>	<b>14,614,705</b>	<b>14,899,401</b>
Provisions for impairment losses	(618,986)	(862,779)	(618,986)	(862,779)
	<b>13,995,719</b>	<b>14,036,622</b>	<b>13,995,719</b>	<b>14,036,622</b>

Average interest rates for total loans to banks, at year level, are stated at 1.41% (1 January to 31 March 2013: 1.53%) and for loans under HBOR loan programmes excluding the liquidity reserve at 1.40% (1 January to 31 March 2013: 1.51%).

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 1,446,978 thousand (31 December 2013: HRK 954,242 thousand). The above placements are collateralised by securities in the amount of HRK 1,545,083 thousand (31 December 2013: HRK 1,018,246 thousand).

In the reporting period, provisions for loans to banks in the amount of HRK 11,157 thousand were formed and provisions in the amount of HRK 58,109 thousand were abolished.

Transfer of provisions to loans to other customers in the amount of HRK 197,608 thousand relates to the transfer of provisions of Centar banka d.d. in bankruptcy proceedings, Zagreb to final borrowers for placements taken over by HBOR into a direct creditor-debtor relationship.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

**10. Loans to other customers**

	Group		Bank	
	Mar 31, 2014	Dec 31, 2013	Mar 31, 2014	Dec 31, 2013
Domestic companies	7,741,440	7,484,326	7,741,440	7,484,326
State-owned companies	1,143,755	907,977	1,143,755	907,977
Public sector	722,703	753,426	722,703	753,426
Foreign companies	138,329	139,068	138,329	139,068
Non-profit institutions	14,832	15,715	14,832	15,715
Other	810,314	773,119	810,314	773,119
Accrued interest	48,913	48,872	48,913	48,872
Deferred recognition of loan origination fees	(87,674)	(80,304)	(87,674)	(80,304)
	<u>10,532,612</u>	<u>10,042,199</u>	<u>10,532,612</u>	<u>10,042,199</u>
Provisions for impairment losses	<u>(2,190,682)</u>	<u>(1,942,851)</u>	<u>(2,190,682)</u>	<u>(1,942,851)</u>
	<b>8,341,930</b>	<b>8,099,348</b>	<b>8,341,930</b>	<b>8,099,348</b>

Loans to other customers by loan programmes:

	Group		Bank	
	Mar 31, 2014	Dec 31, 2013	Mar 31, 2014	Dec 31, 2013
Loan programme for reconstruction and development of the economy	4,081,940	4,073,177	4,081,940	4,073,177
Export financing	1,998,558	1,882,762	1,998,558	1,882,762
Loan programme for reconstruction and development of infrastructure in the	2,030,406	1,787,500	2,030,406	1,787,500
Loan programme for small and medium-sized enterprises	2,098,108	1,967,952	2,098,108	1,967,952
Other	362,361	362,240	362,361	362,240
Accrued interest	48,913	48,872	48,913	48,872
Deferred recognition of loan origination fees	(87,674)	(80,304)	(87,674)	(80,304)
	<u>10,532,612</u>	<u>10,042,199</u>	<u>10,532,612</u>	<u>10,042,199</u>
Provisions for impairment losses	<u>(2,190,682)</u>	<u>(1,942,851)</u>	<u>(2,190,682)</u>	<u>(1,942,851)</u>
	<b>8,341,930</b>	<b>8,099,348</b>	<b>8,341,930</b>	<b>8,099,348</b>

Average interest rates for total loans to other customers, at year level, are stated at 1.98% (1 January to 31 March 2013: 2.06%).

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 121,230 thousand were formed and provisions in the amount of HRK 66,905 thousand were abolished.

Transfer of provisions from loans to banks in the amount of HRK 197,608 thousand relates to the transfer of provisions of Centar banka d.d. in bankruptcy proceedings, Zagreb to final borrowers, for placements taken over by HBOR into a direct creditor-debtor relationship.

Value adjustment of loans to other customers was reduced by the amount of HRK 6,590 thousand relating to taking over of the real estate in pre-bankruptcy settlement. Interest written off in the pre-bankruptcy settlement relates to the amount of HRK 118 thousand.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

**11. Assets available for sale**

	<b>Group</b>		<b>Bank</b>	
	<b>Mar 31, 2014</b>	<b>Dec 31, 2013</b>	<b>Mar 31, 2014</b>	<b>Dec 31, 2013</b>
<b><i>Debt Instruments:</i></b>				
<b>Listed debt instruments:</b>				
Bonds of the Ministry of Finance of the Republic of Croatia	328,142	344,825	311,970	334,951
Treasury bills of the Ministry of Finance of the Republic of Croatia	1,183,755	823,728	1,183,755	823,728
Accrued interest	5,620	8,490	5,413	8,294
	<b>1,517,517</b>	<b>1,177,043</b>	<b>1,501,138</b>	<b>1,166,973</b>
<b><i>Equity Instruments:</i></b>				
<b>Unlisted equity instruments:</b>				
Investments in shares of foreign legal entities	22	22	22	22
Investments in financial institutions shares	161	161	161	161
Shares of foreign financial institutions – EIF	14,242	14,204	14,242	14,204
Investments in company's shares	26,979	26,979	26,979	26,979
Provision for impairment losses	(26,979)	(26,979)	(26,979)	(26,979)
	<b>14,425</b>	<b>14,387</b>	<b>14,425</b>	<b>14,387</b>
<b><i>Investments in investment funds:</i></b>				
Shares classified as assets available for sale	387,727	351,813	386,666	350,682
	<b>387,727</b>	<b>351,813</b>	<b>386,666</b>	<b>350,682</b>
<b>Balance</b>	<b>1,919,669</b>	<b>1,543,243</b>	<b>1,902,229</b>	<b>1,532,042</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)  
for the period 1 January – 31 March 2014 (unaudited)  
(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 (%)	Group		Bank
				Mar 31, 2014	Dec 31, 2013	
<b>Debt instruments:</b>						
Listed debt instruments:						
<i>Bonds of the Republic of Croatia indexed to foreign currency:</i>						
RHMF-O-142A	10.02.2004	10.02.2014	5.5	-	76,415	76,415
RHMF-O-198A	29.11.2004					
RHMF-O-227E	10.02.2014	29.11.2019	5.375	52,100	11,362	11,362
RHMF-O-247E	22.07.2011	22.07.2022	6.5	159,774	153,132	153,132
RHMF-O-157A	22.07.2011	22.07.2022	6.5	11,222	-	-
	14.07.2005	14.07.2015	4.25	3,090	3,064	-
<i>Bonds of the Republic of Croatia in foreign currency:</i>						
XS0645940288	08.07.2011	09.07.2018	5.875	57,977	57,014	57,014
<i>Bonds of the Republic of Croatia in HRK:</i>						
RHMF-O-167A	22.07.2011	22.07.2016	5.75	37,028	37,028	37,028
RHMF-O-172A	08.02.2007	08.02.2017	4.75	587	594	-
RHMF-O-187A	10.07.2013	10.07.2018	5.25	3,965	3,877	-
RHMF-O-178A	25.11.2010	25.11.2017	6.25	540	526	-
RHMF-O-15CA	15.12.2005	15.12.2015	5.25	521	519	-
RHMF-O-203A	05.03.2010	05.03.2020	6.75	1,338	1,294	-
Treasury bills in HRK up to 91 days			0.65 – 0.7	89,931	139,841	139,841
Treasury bills in HRK up to 182 days			1.2 – 1.5	349,032	248,958	248,958
Treasury bills in HRK up to 364 days			2.0 – 2.55	708,996	434,929	434,929
Treasury bills in foreign currency up to 547 days			5.0	35,796	-	-
Accrued interest				5,620	8,490	8,294
				<b>1,517,517</b>	<b>1,177,043</b>	<b>1,166,973</b>
					<b>1,501,138</b>	

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)  
for the period 1 January – 31 March 2014 (unaudited)  
(All amounts are expressed in HRK thousand)

**11. Assets available for sale (continued)**

The following text contains investment breakdown (continued):

	Date of issue	Date of maturity	Interest rate (%)	Group		Bank
				Dec 31, 2013	Mar 31, 2014	
<b>Equity instruments:</b>						
Non-listed equity instruments:						
Investments in shares of foreign legal entities in foreign currency			22	22	22	22
Investments in financial institutions shares			161	161	161	161
Investments in shares of foreign financial institutions in foreign currency			14,242	14,204	14,242	14,204
Investments in company's shares			26,979	26,979	26,979	26,979
Provision for impairment losses			(26,979)	(26,979)	(26,979)	(26,979)
			14,425	14,387	14,425	14,387
<b>Investments in investment funds in the Republic of Croatia</b>			<b>387,727</b>	<b>351,813</b>	<b>386,666</b>	<b>350,682</b>
<b>Total</b>			<b>1,919,669</b>	<b>1,543,243</b>	<b>1,902,229</b>	<b>1,532,042</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

## 12. Borrowings

	Group		Bank	
	Mar 31, 2014	Dec 31, 2013	Mar 31, 2014	Dec 31, 2013
Balance as of 1 January	12,169,761	13,488,855	12,169,761	13,488,855
New borrowings	1,150,090	2,592,969	1,150,090	2,592,969
Repayments	(1,751,188)	(4,017,596)	(1,751,188)	(4,017,596)
Net foreign exchange gains/(losses)	27,239	105,533	27,239	105,533
	<b>11,595,902</b>	<b>12,169,761</b>	<b>11,595,902</b>	<b>12,169,761</b>
Accrued interest	62,641	55,813	62,641	55,813
Deferred recognition of borrowing origination fees	(36,730)	(35,322)	(36,730)	(35,322)
<b>Balance</b>	<b>11,621,813</b>	<b>12,190,252</b>	<b>11,621,813</b>	<b>12,190,252</b>

## 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, 2014	Mar 31, 2014	Dec 31, 2013	Dec 31, 2013
Bonds EUR 150 million	4.836	699,064	689,062	686,914	687,159
Bonds EUR 250 million	5.076	1,945,577	1,910,452	1,950,043	1,904,986
Bonds EUR 150 million	6.37	1,155,284	1,127,679	1,152,154	1,123,934
Accrued interest		-	143,365	-	94,339
Deferred recognition of bond payable origination fees		-	(810)	-	(779)
		<b>3,799,925</b>	<b>3,869,748</b>	<b>3,789,111</b>	<b>3,809,639</b>

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 contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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 2014 amounted to HRK 3,350.8 million, which is a significant increase of 27% as compared with the beginning of the year, and is a result of increase in approved but undrawn loans. Overview of guarantees and commitments:

	Group		Bank	
	Mar 31, 2014	Dec 31, 2013	Mar 31, 2014	Dec 31, 2013
Guarantees issued in foreign currency	485,341	422,907	485,341	422,907
Issued bills of exchange	13,414	15,312	13,414	15,312
Undrawn loans	2,806,210	2,155,490	2,806,210	2,155,490
EIF – subscribed, not called up capital	30,634	30,551	30,634	30,551
Open letters of credit in foreign currency	14,884	23,244	14,884	23,244
Other irrevocable contingent liabilities	338	-	338	-
	<b>3,350,821</b>	<b>2,647,504</b>	<b>3,350,821</b>	<b>2,647,504</b>
Provisions for guarantees and commitments	(76,219)	(60,385)	(76,219)	(60,385)
	<b>3,274,602</b>	<b>2,587,119</b>	<b>3,274,602</b>	<b>2,587,119</b>

##### 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 79%, collateralized by the guarantees and deposits or the liability was taken over by the Republic of Croatia. Letters of credit are entirely covered by deposits.

##### Commitments upon undrawn loans

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

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

##### Other irrevocable contingent liabilities

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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 (in which the Republic of Croatia holds 51% or more of the ownership).

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

Exposure and liabilities as of 31 March 2014 and 31 December 2013, and income and expense for the period 1 January to 31 March 2014 and for the period 1 January to 31 March 2013 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, 2014	Mar 31, 2014	Dec 31, 2013	Dec 31, 2013
Owner	1,902,906	153,189	1,593,830	156,208
Government funds, executive authorities and agencies	354,675	41,535	352,250	47,175
State-owned companies	1,595,600	1	684,404	4
Associates	92	-	94	-
Other intra-group transactions	-	-	-	-
Key management personnel	5,016	-	5,642	-
<b>Total</b>	<b>3,858,289</b>	<b>194,725</b>	<b>2,636,220</b>	<b>203,387</b>

Group	Income	Expense	Income	Expense
	Mar 31, 2014	Mar 31, 2014	Mar 31, 2013	Mar 31, 2013
Owner	12,577	47	13,757	4,473
Government funds, executive authorities and agencies	3,075	201	2,244	347
State-owned companies	5,847	11,778	4,093	10
Associates	23	-	29	-
Other intra-group transactions	-	18	-	-
Key management personnel	44	-	41	-
<b>Total</b>	<b>21,566</b>	<b>12,044</b>	<b>20,164</b>	<b>4,830</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

**15. Related-party transactions (continued)**

a) Related-party transactions (continued)

Bank	Exposure Mar 31, 2014	Liabilities Mar 31, 2014	Exposure Dec 31, 2013	Liabilities Dec 31, 2013
Owner	1,902,906	153,189	1,593,830	156,208
Government funds, executive authorities and agencies	336,705	41,428	339,431	46,808
State-owned companies	1,595,599	-	684,404	-
Subsidiary companies	36,125	-	36,125	-
Associates	92	-	94	-
Key management personnel	4,690	-	5,308	-
<b>Total</b>	<b>3,876,117</b>	<b>194,617</b>	<b>2,659,192</b>	<b>203,016</b>

Bank	Income Mar 31, 2014	Expense Mar 31, 2014	Income Mar 31, 2013	Expense Mar 31, 2013
Owner	12,577	47	13,757	4,473
Government funds, executive authorities and agencies	2,805	103	2,121	1
State-owned companies	5,847	11,764	4,093	-
Subsidiary companies	3	-	4	-
Associates	23	-	29	-
Key management personnel	41	-	35	-
<b>Total</b>	<b>21,296</b>	<b>11,914</b>	<b>20,039</b>	<b>4,474</b>

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 contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

**15. Related-party transactions (continued)**

b) Collateral received

	Group		Bank	
	Mar 31, 2014	Dec 31, 2013	Mar 31, 2014	Dec 31, 2013
The Republic of Croatia	1,491,118	671,350	1,400,859	562,116
State agencies	578,864	569,053	578,864	569,053
<b>Total</b>	<b>2,069,982</b>	<b>1,240,403</b>	<b>1,979,723</b>	<b>1,131,169</b>

Collateral received relates to first-class collateral instruments received as security for HBOR's placements comprising the Republic of Croatia guarantees, HAMAG INVEST 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 50% 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. Salaries for the Group in the reporting period amounted to HRK 2,551 thousand (1 January to 31 March 2013: HRK 2,091 thousand), and for the Bank amounted to HRK 2,272 thousand (1 January to 31 March 2013: HRK 1,951 thousand).

Remuneration for the work of the members of the Supervisory Board for the Group and for the Bank amounted to HRK 97 thousand (1 January to 31 March 2013: HRK 132 thousand) and it relates to the HBOR Supervisory Board member eligible for remuneration and members of the supervisory boards at associates and subsidiaries who were appointed by HBOR.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

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

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

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

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

- Assets and Liabilities Management Committee (ALCO) – manages liquidity risk, interest rate risk in Bank's book and currency risk within the framework of the accepted policies and procedures of the Bank that regulate this area
- Credit Risk Evaluation and Measurement Committee – manages credit risk within the framework set through accepted policies, procedures, and other internal acts that cover issues related to credit risk
- HBOR Information System Management Committee – manages the resources of the information system and adequately manages the risks that result from the use of information technology

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 contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

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## 16. Risk management (continued)

### 16.2. Credit risk

Credit risk encompasses losses derived from full or partial default, i.e. an untimely discharge of a financial obligation by the client. 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 Managing Board of HBOR conducts a conservative credit risk management policy. The credit risk management system is the most important part of the HBOR business policy and is an important factor of its operation strategy. Therefore, this area has been regulated by a special document – the Credit Risk Management Procedures that are applied in all phases of the credit process (from the development of new bank products, credit application, monitoring of the client's business operations until the final loan repayment. The Credit Risk Management Procedures represent a comprehensive document that contains separate internal methodologies for the assessment of credit risk inherent in various target groups.

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 with 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 Croatian Agency for Small Business (HAMAG INVEST), and other types of warranties and guarantees. Depending on the type of collateral, the credit programme, the general terms of insurance or the decision of an authorised body, the Bank has determined the necessary ratio of placements and collateral.

The Bank, with its developmental loan programmes, covers the entire Republic of Croatia with a special emphasis on special concern areas. Credit risk is diversified across geographical areas, industry and developmental credit 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 2014, the highest credit exposure of the Group to one debtor equalled HRK 2,510,810 thousand (as of 31 December 2013: HRK 2,696,322 thousand), and of the Bank HRK 2,510,251 thousand (31 December 2013: HRK 2,695,848 thousand), before the effect of mitigation through collateral received.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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, 2014	Dec 31, 2013	Mar 31, 2014	Dec 31, 2013
<b>Assets</b>				
Cash on hand and due from banks	533,894	2,115,095	533,334	2,114,956
Deposits with other banks	765,738	256,004	745,715	232,187
Loans to banks	13,995,719	14,036,622	13,995,719	14,036,622
Loans to other customers	8,341,930	8,099,348	8,341,930	8,099,348
Financial assets at fair value through profit or loss	1,471	1,423	-	-
Assets available for sale	1,919,669	1,543,243	1,902,229	1,532,042
Assets held to maturity	1,484	1,603	-	-
Other assets	4,397	5,433	2,839	2,746
<b>Total</b>	<b>25,564,302</b>	<b>26,058,771</b>	<b>25,521,766</b>	<b>26,017,901</b>
<b>Guarantees and commitments</b>				
Issued guarantees in foreign currency	467,175	405,679	467,175	405,679
Issued bills of exchange	13,280	15,159	13,280	15,159
Open letters of credit in foreign currency	14,735	23,011	14,735	23,011
Undrawn loans	2,748,443	2,112,719	2,748,443	2,112,719
EIF – subscribed, not called up capital	30,634	30,551	30,634	30,551
Other irrevocable contingent liabilities	335	-	335	-
<b>Total</b>	<b>3,274,602</b>	<b>2,587,119</b>	<b>3,274,602</b>	<b>2,587,119</b>
<b>Total credit risk exposure</b>	<b>28,838,904</b>	<b>28,645,890</b>	<b>28,796,368</b>	<b>28,605,020</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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, 2014	Republic of Croatia	EU countries	Other countries	Total
<b>Assets</b>				
Cash on hand and due from banks	490,829	37,492	5,573	533,894
Deposits with other banks	209,210	556,528	-	765,738
Loans to banks	13,995,164	-	555	13,995,719
Loans to other customers	8,215,579	-	126,351	8,341,930
Financial assets at fair value through profit or loss	1,471	-	-	1,471
Assets available for sale	1,905,405	14,264	-	1,919,669
Assets held to maturity	1,484	-	-	1,484
Other assets	3,785	612	-	4,397
<b>Total</b>	<b>24,822,927</b>	<b>608,896</b>	<b>132,479</b>	<b>25,564,302</b>
<b>Guarantees and commitments</b>				
Issued guarantees in foreign currency	467,175	-	-	467,175
Issued bills of exchange	-	13,280	-	13,280
Open letters of credit in foreign currency	14,735	-	-	14,735
Undrawn loans	2,748,443	-	-	2,748,443
EIF – subscribed, not called up capital	-	30,634	-	30,634
Other irrevocable contingent liabilities	335	-	-	335
<b>Total</b>	<b>3,230,688</b>	<b>43,914</b>	<b>-</b>	<b>3,274,602</b>
<b>Total credit risk exposure</b>	<b>28,053,615</b>	<b>652,810</b>	<b>132,479</b>	<b>28,838,904</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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):

<b>Group Dec 31, 2013</b>	<b>Republic of Croatia</b>	<b>EU countries</b>	<b>Other countries</b>	<b>Total</b>
<b>Assets</b>				
Cash on hand and due from banks	2,061,731	42,272	11,092	2,115,095
Deposits with other banks	33,697	222,307	-	256,004
Loans to banks	14,036,007	-	615	14,036,622
Loans to other customers	7,972,298	-	127,050	8,099,348
Financial assets at fair value through profit or loss	1,423	-	-	1,423
Assets available for sale	1,529,018	14,225	-	1,543,243
Assets held to maturity	1,603	-	-	1,603
Other assets	4,988	445	-	5,433
<b>Total</b>	<b>25,640,765</b>	<b>279,249</b>	<b>138,757</b>	<b>26,058,771</b>
<b>Guarantees and commitments</b>				
Issued guarantees in foreign currency	405,679	-	-	405,679
Issued bills of exchange	-	15,159	-	15,159
Open letters of credit in foreign currency	23,011	-	-	23,011
Undrawn loans	2,112,719	-	-	2,112,719
EIF – subscribed, not called up capital	-	30,551	-	30,551
<b>Total</b>	<b>2,541,409</b>	<b>45,710</b>	<b>-</b>	<b>2,587,119</b>
<b>Total credit risk exposure</b>	<b>28,182,174</b>	<b>324,959</b>	<b>138,757</b>	<b>28,645,890</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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:

<b>Bank Mar 31, 2014</b>	<b>Republic of Croatia</b>	<b>EU countries</b>	<b>Other countries</b>	<b>Total</b>
<b>Assets</b>				
Cash on hand and due from banks	490,269	37,492	5,573	533,334
Deposits with other banks	189,187	556,528	-	745,715
Loans to banks	13,995,164	-	555	13,995,719
Loans to other customers	8,215,579	-	126,351	8,341,930
Assets available for sale	1,887,965	14,264	-	1,902,229
Other assets	2,825	14	-	2,839
<b>Total</b>	<b>24,780,989</b>	<b>608,298</b>	<b>132,479</b>	<b>25,521,766</b>
<b>Guarantees and commitments</b>				
Issued guarantees in foreign currency	467,175	-	-	467,175
Issued bills of exchange	-	13,280	-	13,280
Open letters of credit in foreign currency	14,735	-	-	14,735
Undrawn loans	2,748,443	-	-	2,748,443
EIF – subscribed, not called up capital	-	30,634	-	30,634
Other irrevocable contingent liabilities	335	-	-	335
<b>Total</b>	<b>3,230,688</b>	<b>43,914</b>	<b>-</b>	<b>3,274,602</b>
<b>Total credit risk exposure</b>	<b>28,011,677</b>	<b>652,212</b>	<b>132,479</b>	<b>28,796,368</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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, 2013	Republic of Croatia	EU countries	Other countries	Total
<b>Assets</b>				
Cash on hand and due from banks	2,061,592	42,272	11,092	2,114,956
Deposits with other banks	9,880	222,307	-	232,187
Loans to banks	14,036,007	-	615	14,036,622
Loans to other customers	7,972,298	-	127,050	8,099,348
Assets available for sale	1,517,817	14,225	-	1,532,042
Other assets	2,653	93	-	2,746
<b>Total</b>	<b>25,600,247</b>	<b>278,897</b>	<b>138,757</b>	<b>26,017,901</b>
<b>Guarantees and commitments</b>				
Issued guarantees in foreign currency	405,679	-	-	405,679
Issued bills of exchange	-	15,159	-	15,159
Open letters of credit in foreign currency	23,011	-	-	23,011
Undrawn loans	2,112,719	-	-	2,112,719
EIF – subscribed, not called up capital	-	30,551	-	30,551
<b>Total</b>	<b>2,541,409</b>	<b>45,710</b>	<b>-</b>	<b>2,587,119</b>
<b>Total credit risk exposure</b>	<b>28,141,656</b>	<b>324,607</b>	<b>138,757</b>	<b>28,605,020</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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, 2014	Mar 31, 2014	Dec 31, 2013	Dec 31, 2013
Financial intermediation and insurance	16,586,934	-	17,658,301	-
Water and electric supply and other infrastructure	1,336,794	1,079,867	1,370,937	1,106,767
Tourism	1,865,726	69,697	1,802,821	97,332
Transport, warehousing and connections	1,389,146	67,616	592,089	90,515
Shipbuilding	763,887	592,400	714,422	583,714
Agriculture and fishery	699,315	189,589	727,366	194,319
Food industry	764,346	163,884	781,418	163,924
Construction industry	625,384	142,495	577,314	87,871
Other industry	696,653	223,798	689,314	192,020
Public administration	1,509,026	1,509,026	1,171,688	1,171,688
Education	73,726	69,902	73,613	69,710
Manufacture of basic metals and fabricated metal products, except machinery and equipment	281,041	52,411	316,726	60,723
Manufacture of chemicals and chemical products	98,042	36,758	104,463	34,429
Manufacture of other non-metallic mineral products	336,624	141,598	217,613	22,407
Pharmaceutical industry	344,822	155,385	347,960	159,464
Other	1,467,438	403,914	1,499,845	404,089
<b>Total credit risk exposure</b>	<b>28,838,904</b>	<b>4,898,340</b>	<b>28,645,890</b>	<b>4,438,972</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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, 2014	Mar 31, 2014	Dec 31, 2013	Dec 31, 2013
Financial intermediation and insurance	16,563,207	-	17,631,452	-
Water and electric supply and other infrastructure	1,336,794	1,079,867	1,370,937	1,106,767
Tourism	1,865,726	69,697	1,802,821	97,332
Transport, warehousing and connections	1,389,146	67,616	592,089	90,515
Shipbuilding	763,887	592,400	714,422	583,714
Agriculture and fishery	699,302	189,577	727,366	194,319
Food industry	764,295	163,833	781,374	163,880
Construction industry	625,259	142,370	577,183	87,739
Other industry	696,452	223,597	689,147	191,853
Public administration	1,491,056	1,491,056	1,158,869	1,158,869
Education	73,726	69,902	73,613	69,710
Manufacture of basic metals and fabricated metal products, except machinery and equipment	280,993	52,363	316,700	60,697
Manufacture of chemicals and chemical products	98,042	36,758	104,463	34,429
Manufacture of other non-metallic mineral products	336,579	141,553	217,572	22,366
Pharmaceutical industry	344,657	155,219	347,414	158,919
Other	1,467,247	403,722	1,499,598	403,843
<b>Total credit risk exposure</b>	<b>28,796,368</b>	<b>4,879,530</b>	<b>28,605,020</b>	<b>4,424,952</b>

Concentration of assets and guarantees and commitments according to industry for both years has been compiled in accordance with the National Classification of Activities 2007 ("NKD 2007").

In the preparation of the note, a combined approach is applied, which takes into consideration business activities of a debtor, retains the names of activities different from those in the National Classification of Activities and unites similar business activities.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

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**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 2014 amounted to HRK 23,940,564 thousand (31 December 2013: HRK 24,206,918 thousand), and for the Bank HRK 23,916,838 thousand (31 December 2013: HRK 24,180,068 thousand).

In the total net highest exposure of the Bank as of 31 March 2014, the credit risk of HRK 2,982,162 thousand (31 December 2013: HRK 2,699,551 thousand) is not covered with ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 479,183 thousand (31 December 2013: HRK 505,056 thousand), from local (regional) authorities of HRK 219,021 thousand (31 December 2013: HRK 223,933 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 330,675 thousand (31 December 2013: HRK 332,913 thousand), government funds of HRK 5,682 thousand (31 December 2013: HRK 6,064 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 1,501,138 thousand (31 December 2013: HRK 1,166,973 thousand). In addition, an amount of HRK 446,463 thousand (31 December 2013: HRK 464,612 thousand) relates to receivables from a majority state-owned company (51%).

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

Financial intermediation includes mainly commercial banks.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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)**

Credit risk exposure by internal credit rating:

Internal credit rating	Historical default rate	Historical default rate	Group		Bank	
	(%)	(%)	Mar 31, 2014	Dec 31, 2013	Mar 31, 2014	Dec 31, 2013
A	1.99%	2.26%	26,851,289	26,624,941	26,808,753	26,584,071
B	31.75%	23.70%	1,987,615	2,020,949	1,987,615	2,020,949
C	94.07%	93.71%	-	-	-	-
<b>Total</b>			<b>28,838,904</b>	<b>28,645,890</b>	<b>28,796,368</b>	<b>28,605,020</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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, 2014								
<b>Assets</b>								
Cash on hand and due from banks	533,894	-	-	533,894	-	-	-	-
Deposits with other banks	765,738	-	-	765,738	-	-	-	-
Loans to banks	13,457,984	537,735	-	13,995,719	-	-	-	-
Loans to other customers	6,960,701	1,381,229	-	8,341,930	2,640,474	89,201	-	2,729,675
Financial assets at fair value through profit or loss	1,471	-	-	1,471	-	-	-	-
Assets available for sale	1,919,669	-	-	1,919,669	1,517,517	-	-	1,517,517
Assets held to maturity	1,484	-	-	1,484	1,484	-	-	1,484
Other assets	4,359	38	-	4,397	3,730	38	-	3,768
<b>Total</b>	<b>23,645,300</b>	<b>1,919,002</b>	<b>-</b>	<b>25,564,302</b>	<b>4,163,205</b>	<b>89,239</b>	<b>-</b>	<b>4,252,444</b>
<b>Guarantees and commitments</b>								
Issued guarantees in foreign currency	411,123	56,052	-	467,175	263,549	-	-	263,549
Issued bills of exchange	13,280	-	-	13,280	-	-	-	-
Open letters of credit in foreign currency	14,735	-	-	14,735	-	-	-	-
Undrawn loans	2,735,882	12,561	-	2,748,443	382,012	-	-	382,012
EIF – subscribed, not called up capital	30,634	-	-	30,634	-	-	-	-
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
<b>Total</b>	<b>3,205,989</b>	<b>68,613</b>	<b>-</b>	<b>3,274,602</b>	<b>645,896</b>	<b>-</b>	<b>-</b>	<b>645,896</b>
<b>Total credit risk exposure</b>	<b>26,851,289</b>	<b>1,987,615</b>	<b>-</b>	<b>28,838,904</b>	<b>4,809,101</b>	<b>89,239</b>	<b>-</b>	<b>4,898,340</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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
Dec 31, 2013								
<b>Assets</b>								
Cash on hand and due from banks	2,115,095	-	-	2,115,095	-	-	-	-
Deposits with other banks	256,004	-	-	256,004	-	-	-	-
Loans to banks	13,480,831	555,791	-	14,036,622	-	-	-	-
Loans to other customers	6,700,181	1,399,167	-	8,099,348	2,692,444	81,374	-	2,773,818
Financial assets at fair value through profit or loss	1,423	-	-	1,423	-	-	-	-
Assets available for sale	1,543,243	-	-	1,543,243	1,177,043	-	-	1,177,043
Assets held to maturity	1,603	-	-	1,603	1,603	-	-	1,603
Other assets	5,401	32	-	5,433	4,998	32	-	5,030
<b>Total</b>	<b>24,103,781</b>	<b>1,954,990</b>	<b>-</b>	<b>26,058,771</b>	<b>3,876,088</b>	<b>81,406</b>	<b>-</b>	<b>3,957,494</b>
<b>Guarantees and commitments</b>								
Issued guarantees in foreign currency	350,946	54,733	-	405,679	222,303	-	-	222,303
Issued bills of exchange	15,159	-	-	15,159	-	-	-	-
Open letters of credit in foreign currency	23,011	-	-	23,011	-	-	-	-
Undrawn loans EIF – subscribed, not called up capital	2,101,493	11,226	-	2,112,719	259,175	-	-	259,175
<b>Total</b>	<b>2,521,160</b>	<b>65,959</b>	<b>-</b>	<b>2,587,119</b>	<b>481,478</b>	<b>-</b>	<b>-</b>	<b>481,478</b>
<b>Total credit risk exposure</b>	<b>26,624,941</b>	<b>2,020,949</b>	<b>-</b>	<b>28,645,890</b>	<b>4,357,566</b>	<b>81,406</b>	<b>-</b>	<b>4,438,972</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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
<b>Mar 31, 2014</b>								
<b>Assets</b>								
Cash on hand and due from banks	533,334	-	-	533,334	-	-	-	-
Deposits with other banks	745,715	-	-	745,715	-	-	-	-
Loans to banks	13,457,984	537,735	-	13,995,719	-	-	-	-
Loans to other customers	6,960,701	1,381,229	-	8,341,930	2,640,474	89,201	-	2,729,675
Assets available for sale	1,902,229	-	-	1,902,229	1,501,138	-	-	1,501,138
Other assets	2,801	38	-	2,839	2,783	38	-	2,821
<b>Total</b>	<b>23,602,764</b>	<b>1,919,002</b>	<b>-</b>	<b>25,521,766</b>	<b>4,144,395</b>	<b>89,239</b>	<b>-</b>	<b>4,233,634</b>
<b>Guarantees and commitments</b>								
Issued guarantees in foreign currency	411,123	56,052	-	467,175	263,549	-	-	263,549
Issued bills of exchange	13,280	-	-	13,280	-	-	-	-
Open letters of credit in foreign currency	14,735	-	-	14,735	-	-	-	-
Undrawn loans	2,735,882	12,561	-	2,748,443	382,012	-	-	382,012
EIF – subscribed, not called up capital	30,634	-	-	30,634	-	-	-	-
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
<b>Total</b>	<b>3,205,989</b>	<b>68,613</b>	<b>-</b>	<b>3,274,602</b>	<b>645,896</b>	<b>-</b>	<b>-</b>	<b>645,896</b>
<b>Total credit risk exposure</b>	<b>26,808,753</b>	<b>1,987,615</b>	<b>-</b>	<b>28,796,368</b>	<b>4,790,291</b>	<b>89,239</b>	<b>-</b>	<b>4,879,530</b>

In the total net highest exposure of the Group and the Bank, the amount of loans to other customers of HRK 1,289,564 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 287,742 thousand, local (regional) authorities of HRK 219,021 thousand, public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 330,675 thousand and the government funds of HRK 5,663 thousand. An additional amount of HRK 446,463 thousand relates to receivables from majority (51%) state-owned companies.

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 1,519,001 thousand for the Group and HRK 1,501,138 thousand for the Bank.

Other assets of HRK 1,104 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

The amount of HRK 190,020 thousand relates to a guarantee issued in foreign currency, for which the liability was assumed by the Republic of Croatia.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

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(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, 2013								
<b>Assets</b>								
Cash on hand and due from banks	2,114,956	-	-	2,114,956	-	-	-	-
Deposits with other banks	232,187	-	-	232,187	-	-	-	-
Loans to banks	13,480,831	555,791	-	14,036,622	-	-	-	-
Loans to other customers	6,700,181	1,399,167	-	8,099,348	2,692,444	81,374	-	2,773,818
Assets available for sale	1,532,042	-	-	1,532,042	1,166,973	-	-	1,166,973
Other assets	2,714	32	-	2,746	2,651	32	-	2,683
<b>Total</b>	<b>24,062,911</b>	<b>1,954,990</b>	<b>-</b>	<b>26,017,901</b>	<b>3,862,068</b>	<b>81,406</b>	<b>-</b>	<b>3,943,474</b>
<b>Guarantees and commitments</b>								
Issued guarantees in foreign currency	350,946	54,733	-	405,679	222,303	-	-	222,303
Issued bills of exchange	15,159	-	-	15,159	-	-	-	-
Open letters of credit in foreign currency	23,011	-	-	23,011	-	-	-	-
Undrawn loans	2,101,493	11,226	-	2,112,719	259,175	-	-	259,175
EIF – subscribed, not called up capital	30,551	-	-	30,551	-	-	-	-
<b>Total</b>	<b>2,521,160</b>	<b>65,959</b>	<b>-</b>	<b>2,587,119</b>	<b>481,478</b>	<b>-</b>	<b>-</b>	<b>481,478</b>
<b>Total credit risk exposure</b>	<b>26,584,071</b>	<b>2,020,949</b>	<b>-</b>	<b>28,605,020</b>	<b>4,343,546</b>	<b>81,406</b>	<b>-</b>	<b>4,424,952</b>

In the total net highest exposure of the Group and the Bank, the amount of loans to other customers of HRK 1,342,791 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 315,281 thousand, local (regional) authorities of HRK 223,932 thousand, public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 332,913 thousand and the government funds of HRK 6,053 thousand. An additional amount of HRK 464,612 thousand relates to receivables from majority (51%) state-owned companies.

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 1,181,645 thousand for the Group and HRK 1,166,973 thousand for the Bank.

Other assets of HRK 1,202 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

The amount of HRK 188,585 thousand relates to a guarantee issued in foreign currency, for which the liability was as summed by the Republic of Croatia.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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

Mar 31, 2014	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
<b>Assets</b>				
Cash on hand and due from banks	533,894	-	-	533,894
Deposits with other banks	765,738	-	-	765,738
Loans to banks	13,349,480	108,504	537,735	13,995,719
Loans to other customers	6,816,135	144,566	1,381,229	8,341,930
Financial assets at fair value through profit or loss	1,471	-	-	1,471
Assets available for sale	1,919,669	-	-	1,919,669
Assets held to maturity	1,484	-	-	1,484
Other assets	2,677	1,682	38	4,397
<b>Total</b>	<b>23,390,548</b>	<b>254,752</b>	<b>1,919,002</b>	<b>25,564,302</b>
<b>Guarantees and commitments</b>				
Issued guarantees in foreign currency	411,123	-	56,052	467,175
Issued bills of exchange	13,280	-	-	13,280
Open letters of credit in foreign currency	14,735	-	-	14,735
Undrawn loans	2,735,882	-	12,561	2,748,443
EIF – subscribed, not called up capital	30,634	-	-	30,634
Other irrevocable contingent liabilities	335	-	-	335
<b>Total</b>	<b>3,205,989</b>	<b>-</b>	<b>68,613</b>	<b>3,274,602</b>
<b>Total credit risk exposure</b>	<b>26,596,537</b>	<b>254,752</b>	<b>1,987,615</b>	<b>28,838,904</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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

Dec 31, 2013	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
<b>Assets</b>				
Cash on hand and due from banks	2,115,095	-	-	2,115,095
Deposits with other banks	256,004	-	-	256,004
Loans to banks	13,380,864	99,967	555,791	14,036,622
Loans to other customers	6,532,765	167,416	1,399,167	8,099,348
Financial assets at fair value through profit or loss	1,423	-	-	1,423
Assets available for sale	1,543,243	-	-	1,543,243
Assets held to maturity	1,603	-	-	1,603
Other assets	4,175	1,226	32	5,433
<b>Total</b>	<b>23,835,172</b>	<b>268,609</b>	<b>1,954,990</b>	<b>26,058,771</b>
<b>Guarantees and commitments</b>				
Issued guarantees in foreign currency	350,946	-	54,733	405,679
Issued bills of exchange	15,159	-	-	15,159
Open letters of credit in foreign currency	23,011	-	-	23,011
Undrawn loans	2,101,493	-	11,226	2,112,719
EIF – subscribed, not called up capital	30,551	-	-	30,551
<b>Total</b>	<b>2,521,160</b>	<b>-</b>	<b>65,959</b>	<b>2,587,119</b>
<b>Total credit risk exposure</b>	<b>26,356,332</b>	<b>268,609</b>	<b>2,020,949</b>	<b>28,645,890</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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**

Mar 31, 2014	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
<b>Assets</b>				
Cash on hand and due from banks	533,334	-	-	533,334
Deposits with other banks	745,715	-	-	745,715
Loans to banks	13,349,480	108,504	537,735	13,995,719
Loans to other customers	6,816,135	144,566	1,381,229	8,341,930
Assets available for sale	1,902,229	-	-	1,902,229
Other assets	1,119	1,682	38	2,839
<b>Total</b>	<b>23,348,012</b>	<b>254,752</b>	<b>1,919,002</b>	<b>25,521,766</b>
<b>Guarantees and commitments</b>				
Issued guarantees in foreign currency	411,123	-	56,052	467,175
Issued bills of exchange	13,280	-	-	13,280
Open letters of credit in foreign currency	14,735	-	-	14,735
Undrawn loans	2,735,882	-	12,561	2,748,443
EIF – subscribed, not called up capital	30,634	-	-	30,634
Other irrevocable contingent liabilities	335	-	-	335
<b>Total</b>	<b>3,205,989</b>	<b>-</b>	<b>68,613</b>	<b>3,274,602</b>
<b>Total credit risk exposure</b>	<b>26,554,001</b>	<b>254,752</b>	<b>1,987,615</b>	<b>28,796,368</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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

Dec 31, 2013	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
<b>Assets</b>				
Cash on hand and due from banks	2,114,956	-	-	2,114,956
Deposits with other banks	232,187	-	-	232,187
Loans to banks	13,380,864	99,967	555,791	14,036,622
Loans to other customers	6,532,765	167,416	1,399,167	8,099,348
Assets available for sale	1,532,042	-	-	1,532,042
Other assets	1,488	1,226	32	2,746
<b>Total</b>	<b>23,794,302</b>	<b>268,609</b>	<b>1,954,990</b>	<b>26,017,901</b>
<b>Guarantees and commitments</b>				
Issued guarantees in foreign currency	350,946	-	54,733	405,679
Issued bills of exchange	15,159	-	-	15,159
Open letters of credit in foreign currency	23,011	-	-	23,011
Undrawn loans	2,101,493	-	11,226	2,112,719
EFF – subscribed, not called up capital	30,551	-	-	30,551
<b>Total</b>	<b>2,521,160</b>	<b>-</b>	<b>65,959</b>	<b>2,587,119</b>
<b>Total credit risk exposure</b>	<b>26,315,462</b>	<b>268,609</b>	<b>2,020,949</b>	<b>28,605,020</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)  
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(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:

Assets	Up to 2 days		3 to 45 days		46 to 90 days		Over 90 days		Total	Total
	Mar 31, 2014	Mar 31, 2014	Mar 31, 2014	Mar 31, 2014	Mar 31, 2014	Mar 31, 2014	Mar 31, 2014	Mar 31, 2014		
Loans to banks	7,941	98,321	455	1,787	108,504	8,283	59,787	30,374	1,523	99,967
Loans to other customers	75,525	12,983	15,986	40,072	144,566	82,200	2,579	1,739	80,898	167,416
Other assets	-	138	321	1,223	1,682	-	21	236	969	1,226
<b>Total</b>	<b>83,466</b>	<b>111,442</b>	<b>16,762</b>	<b>43,082</b>	<b>254,752</b>	<b>90,483</b>	<b>62,387</b>	<b>32,349</b>	<b>83,390</b>	<b>268,609</b>

From total due and not impaired loans to banks in the reporting period, an amount of HRK 99,566 thousand, i.e. 92%, relates to not executed extensions of revolving loans under framework contracts within the export credit financing programme and the production financing programme.

If the total amount of due and not impaired loans to banks is reduced by the debt of banks under the export credit finance programme and the production financing programme, the remaining debt equals HRK 8,938 thousand.

From total due and not impaired loans to other customers in the reporting period, an amount of HRK 75,525 thousand, i.e. 52%, relates to delays of up to 2 days, of which the amount of HRK 3,247 thousand, i.e. 4%, was guaranteed by the Republic of Croatia.

From total due and not impaired loans to banks in 2013, an amount of HRK 92,582 thousand, i.e. 93%, relates to not executed extensions of revolving loans under framework contracts within the export credit financing programme.

If the total amount of due and not impaired loans to banks is reduced by the debt of banks under the export credit finance programme, the remaining debt equals HRK 7,385 thousand.

From total due and not impaired loans to other customers in 2013, an amount of HRK 82,200 thousand, i.e. 49%, relates to delays of up to two days, of which the amount of HRK 590 thousand, i.e. 1%, was guaranteed by the Republic of Croatia.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

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**16. Risk management (continued)**

**16.3. Liquidity risk**

Liquidity risk is a risk of financial loss which arises from the Bank's present or expected inability to fund its financial liabilities when due. The basic principles for managing HBOR's liquidity risk are determined in the internal documents as well as in the decisions and conclusions made by the Supervisory Board, the Managing Board and the Asset and Liability Management Committee.

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.3. Liquidity risk (continued)

The table below provides an analysis of the Bank's total assets and total liabilities and equity as of 31 March 2014 and 31 December 2013 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, 2014	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
<b>Assets</b>						
Cash on hand and due from banks	481,026	37,224	15,656	-	-	533,906
Deposits with other banks	578,867	166,848	20,023	-	-	765,738
Loans to banks*	1,694,427	917,454	2,080,660	3,661,928	5,641,250	13,995,719
Loans to other customers	1,072,237	325,255	943,431	2,257,039	3,743,968	8,341,930
Financial assets at fair value through profit or loss	1,471	-	-	-	-	1,471
Assets available for sale	1,914,049	5,539	81	-	-	1,919,669
Assets held to maturity	-	17	2	-	1,465	1,484
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	63,886	63,886
Non-current assets held for sale	-	3	27,688	6,543	-	34,234
Other assets	4,144	1,323	621	-	513	6,601
<b>Total assets (1)</b>	<b>5,746,221</b>	<b>1,453,663</b>	<b>3,088,162</b>	<b>5,925,510</b>	<b>9,451,082</b>	<b>25,664,638</b>
<b>Liabilities</b>						
Deposits	133,072	5,602	13,791	-	366	152,831
Borrowings	15,207	653,440	402,750	2,973,503	7,576,913	11,621,813
Bonds payable	-	143,365	229,687	459,375	3,037,321	3,869,748
Other liabilities	153,669	56,720	179,189	302,568	380,857	1,073,003
<b>Total liabilities</b>	<b>301,948</b>	<b>859,127</b>	<b>825,417</b>	<b>3,735,446</b>	<b>10,995,457</b>	<b>16,717,395</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,543,739	6,543,739
Retained earnings and reserves	-	-	-	-	2,306,634	2,306,634
Other reserves	-	-	-	-	37,184	37,184
Net profit for the year	-	-	-	-	47,146	47,146
<b>Total equity attributable to equity holders of the parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,934,703</b>	<b>8,934,703</b>
Non-controlling interests	-	-	-	-	-	-
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,934,703</b>	<b>8,934,703</b>
Guarantee fund	-	-	-	-	12,540	12,540
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,947,243</b>	<b>8,947,243</b>
<b>Total liabilities and total equity (2)</b>	<b>301,948</b>	<b>859,127</b>	<b>825,417</b>	<b>3,735,446</b>	<b>19,942,700</b>	<b>25,664,638</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>5,444,273</b>	<b>594,536</b>	<b>2,262,745</b>	<b>2,190,064</b>	<b>(10,491,618)</b>	<b>-</b>
<b>Net cumulative assets/liabilities</b>	<b>5,444,273</b>	<b>6,038,809</b>	<b>8,301,554</b>	<b>10,491,618</b>	<b>-</b>	<b>-</b>

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

\* Receivables of HRK 1,446,978 thousand relate to reverse REPO agreements. The maturity of part of receivables was prolonged after the Statement of Financial Position date, and an amount of HRK 306.336 thousand was placed in the 1 up to 3 months maturity category.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.3. Liquidity risk (continued)

The table below provides an analysis of the Bank's total assets and total liabilities and equity as of 31 March 2014 and 31 December 2013 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 Dec 31, 2013	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
<b>Assets</b>						
Cash on hand and due from banks	1,961,668	128,304	25,126	-	-	2,115,098
Deposits with other banks	232,532	-	23,472	-	-	256,004
Loans to banks*	1,374,652	1,149,617	2,254,962	3,665,920	5,591,471	14,036,622
Loans to other customers	932,953	227,485	1,058,050	2,360,787	3,520,073	8,099,348
Financial assets at fair value through profit or loss	1,423	-	-	-	-	1,423
Assets available for sale	1,534,907	8,305	31	-	-	1,543,243
Assets held to maturity	-	1,103	-	-	500	1,603
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	65,214	65,214
Non-current assets held for sale	3	-	12,737	21,480	-	34,220
Other assets	12,674	1,877	339	-	526	15,416
<b>Total assets (1)</b>	<b>6,050,812</b>	<b>1,516,691</b>	<b>3,374,717</b>	<b>6,048,187</b>	<b>9,177,784</b>	<b>26,168,191</b>
<b>Liabilities</b>						
Deposits	133,742	14,814	9,874	8,168	178	166,776
Borrowings	1,656,571	137,007	341,426	3,250,531	6,804,717	12,190,252
Bonds payable	-	94,339	229,053	458,106	3,028,141	3,809,639
Other liabilities	157,424	55,074	187,781	316,814	396,152	1,113,245
<b>Total liabilities</b>	<b>1,947,737</b>	<b>301,234</b>	<b>768,134</b>	<b>4,033,619</b>	<b>10,229,188</b>	<b>17,279,912</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,543,739	6,543,739
Retained earnings and reserves	-	-	-	-	2,117,372	2,117,372
Other reserves	-	-	-	-	25,400	25,400
Net profit for the year	-	-	-	-	189,262	189,262
<b>Total equity attributable to equity holders of the parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,875,773</b>	<b>8,875,773</b>
Non-controlling interests	-	-	-	-	-	-
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,875,773</b>	<b>8,875,773</b>
Guarantee fund	-	-	-	-	12,506	12,506
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,888,279</b>	<b>8,888,279</b>
<b>Total liabilities and total equity (2)</b>	<b>1,947,737</b>	<b>301,234</b>	<b>768,134</b>	<b>4,033,619</b>	<b>19,117,467</b>	<b>26,168,191</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>4,103,075</b>	<b>1,215,457</b>	<b>2,606,583</b>	<b>2,014,568</b>	<b>(9,939,683)</b>	<b>-</b>
<b>Net cumulative assets/liabilities</b>	<b>4,103,075</b>	<b>5,318,532</b>	<b>7,925,115</b>	<b>9,939,683</b>	<b>-</b>	<b>-</b>

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

\* Receivables of HRK 954,242 thousand relate to reverse REPO agreements. The maturity of part of receivables was prolonged after the Statement of Financial Position date, and an amount of HRK 440,506 thousand was placed in the 1 up to 3 months maturity category.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.3. Liquidity risk (continued)

The table below provides an analysis of the Bank's total assets and total liabilities and equity as of 31 March 2014 and 31 December 2013 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, 2014	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
<b>Assets</b>						
Cash on hand and due from banks	480,466	37,224	15,656	-	-	533,346
Deposits with other banks	578,867	166,848	-	-	-	745,715
Loans to banks*	1,694,427	917,454	2,080,660	3,661,928	5,641,250	13,995,719
Loans to other customers	1,072,237	325,255	943,431	2,257,039	3,743,968	8,341,930
Assets available for sale	1,896,816	5,413	-	-	-	1,902,229
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	63,578	63,578
Non-current assets held for sale	-	3	27,688	6,543	-	34,234
Other assets	3,321	599	609	-	-	4,529
<b>Total assets (1)</b>	<b>5,726,134</b>	<b>1,452,796</b>	<b>3,068,044</b>	<b>5,925,510</b>	<b>9,484,920</b>	<b>25,657,404</b>
<b>Liabilities</b>						
Deposits	133,072	5,602	13,791	-	366	152,831
Borrowings	15,207	653,440	402,750	2,973,503	7,576,913	11,621,813
Bonds payable	-	143,365	229,687	459,375	3,037,321	3,869,748
Other liabilities	153,246	54,523	175,352	301,265	381,454	1,065,840
<b>Total liabilities</b>	<b>301,525</b>	<b>856,930</b>	<b>821,580</b>	<b>3,734,143</b>	<b>10,996,054</b>	<b>16,710,232</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,543,739	6,543,739
Retained earnings and reserves	-	-	-	-	2,308,560	2,308,560
Other reserves	-	-	-	-	35,461	35,461
Net profit for the year	-	-	-	-	46,872	46,872
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,934,632</b>	<b>8,934,632</b>
Guarantee fund	-	-	-	-	12,540	12,540
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,947,172</b>	<b>8,947,172</b>
<b>Total liabilities and total equity (2)</b>	<b>301,525</b>	<b>856,930</b>	<b>821,580</b>	<b>3,734,143</b>	<b>19,943,226</b>	<b>25,657,404</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>5,424,609</b>	<b>595,866</b>	<b>2,246,464</b>	<b>2,191,367</b>	<b>(10,458,306)</b>	<b>-</b>
<b>Net cumulative assets/liabilities</b>	<b>5,424,609</b>	<b>6,020,475</b>	<b>8,266,939</b>	<b>10,458,306</b>	<b>-</b>	<b>-</b>

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

\* Receivables of HRK 1,446,978 thousand relate to reverse REPO agreements. The maturity of part of receivables was prolonged after the Statement of Financial Position date, and an amount of HRK 306,336 thousand was placed in the 1 up to 3 months maturity category.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.3. Liquidity risk (continued)**

The table below provides an analysis of the Bank's total assets and total liabilities and equity as of 31 March 2014 and 31 December 2013 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 Dec 31, 2013	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
<b>Assets</b>						
Cash on hand and due from banks	1,961,529	128,304	25,126	-	-	2,114,959
Deposits with other banks	232,187	-	-	-	-	232,187
Loans to banks*	1,374,652	1,149,617	2,254,962	3,665,920	5,591,471	14,036,622
Loans to other customers	932,953	227,485	1,058,050	2,360,787	3,520,073	8,099,348
Assets available for sale	1,523,748	8,294	-	-	-	1,532,042
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	64,880	64,880
Non-current assets held for sale	3	-	12,737	21,480	-	34,220
Other assets	11,506	376	321	-	-	12,203
<b>Total assets (1)</b>	<b>6,036,578</b>	<b>1,514,076</b>	<b>3,351,196</b>	<b>6,048,187</b>	<b>9,212,548</b>	<b>26,162,585</b>
<b>Liabilities</b>						
Deposits	133,742	14,814	9,874	8,168	178	166,776
Borrowings	1,656,571	137,007	341,426	3,250,531	6,804,717	12,190,252
Bonds payable	-	94,339	229,053	458,106	3,028,141	3,809,639
Other liabilities	156,939	53,561	184,240	315,720	396,669	1,107,129
<b>Total liabilities</b>	<b>1,947,252</b>	<b>299,721</b>	<b>764,593</b>	<b>4,032,525</b>	<b>10,229,705</b>	<b>17,273,796</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,543,739	6,543,739
Retained earnings and reserves	-	-	-	-	2,119,402	2,119,402
Other reserves	-	-	-	-	23,984	23,984
Net profit for the year	-	-	-	-	189,158	189,158
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,876,283</b>	<b>8,876,283</b>
Guarantee fund	-	-	-	-	12,506	12,506
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,888,789</b>	<b>8,888,789</b>
<b>Total liabilities and total equity (2)</b>	<b>1,947,252</b>	<b>299,721</b>	<b>764,593</b>	<b>4,032,525</b>	<b>19,118,494</b>	<b>26,162,585</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>4,089,326</b>	<b>1,214,355</b>	<b>2,586,603</b>	<b>2,015,662</b>	<b>(9,905,946)</b>	<b>-</b>
<b>Net cumulative assets/liabilities</b>	<b>4,089,326</b>	<b>5,303,681</b>	<b>7,890,284</b>	<b>9,905,946</b>	<b>-</b>	<b>-</b>

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

\* Receivables of HRK 954,242 thousand relate to reverse REPO agreements. The maturity of part of receivables was prolonged after the Statement of Financial Position date, and an amount of HRK 440,506 thousand was placed in the 1 up to 3 months maturity category.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

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**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**

Interest rate risk in the Bank's book is the financial risk that occurs due to interest rate mismatching of the value and maturity of interest-sensitive assets, total liabilities and equity, and off balance sheet positions. The basic principles for managing the Bank's interest rate risk are determined in the internal documents as well as in the decisions and conclusions made by the Managing Board and the Asset and Liability Management Committee. For the purpose of measurement and monitoring of interest rate risk, the Bank carries out interest rate gap analysis. Interest rate gap is calculated for certain periods according to the possibilities of interest rate changes and presents the sensitivity of the Bank to the changes in interest rates. Interest rates are structured per currency, type and value, and projections of average weighted interest rates for Bank's funds and placements are made. 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, current market conditions and movements in forecasted market indicators are also monitored.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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 a reasonable possible change in interest rates as of 31 March 2014 and 31 December 2013 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 2014 and 31 December 2013 which may not be indicative for the positions in other periods.

Group	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
<b>Mar 31, 2014</b>							
<b>Assets</b>							
Cash on hand and due from banks	560	-	-	-	-	533,346	533,906
Deposits with other banks	578,867	166,800	19,500	-	-	571	765,738
Loans to banks	1,686,795	1,602,110	2,459,249	3,135,686	5,094,381	17,498	13,995,719
Loans to other customers	1,006,839	492,047	1,537,204	1,697,146	3,333,236	275,458	8,341,930
Financial assets at fair value through profit or loss	-	-	-	-	-	1,471	1,471
Assets available for sale	1,526,322	-	-	-	-	393,347	1,919,669
Assets held to maturity	-	-	-	-	1,465	19	1,484
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	63,886	63,886
Non-current assets held for sale	-	-	-	-	-	34,234	34,234
Other assets	-	-	-	-	-	6,601	6,601
<b>Total assets (1)</b>	<b>4,799,383</b>	<b>2,260,957</b>	<b>4,015,953</b>	<b>4,832,832</b>	<b>8,429,082</b>	<b>1,326,431</b>	<b>25,664,638</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
<b>Mar 31, 2014</b>							
<b>Liabilities</b>							
Deposits	-	-	-	-	-	152,831	152,831
Borrowings	15,207	590,799	1,578,124	2,844,500	6,530,542	62,641	11,621,813
Bonds payable	-	-	229,687	459,375	3,037,321	143,365	3,869,748
Other liabilities	-	-	-	-	-	1,073,003	1,073,003
<b>Total liabilities</b>	<b>15,207</b>	<b>590,799</b>	<b>1,807,811</b>	<b>3,303,875</b>	<b>9,567,863</b>	<b>1,431,840</b>	<b>16,717,395</b>
<b>Equity</b>							
Founder's capital	-	-	-	-	-	6,543,739	6,543,739
Retained earnings and reserves	-	-	-	-	-	2,306,634	2,306,634
Other reserves	-	-	-	-	-	37,184	37,184
Net profit for the year	-	-	-	-	-	47,146	47,146
<b>Total equity attributable to equity holders of the parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,934,703</b>	<b>8,934,703</b>
Non-controlling interests	-	-	-	-	-	-	-
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,934,703</b>	<b>8,934,703</b>
Guarantee fund	-	-	-	-	-	12,540	12,540
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,947,243</b>	<b>8,947,243</b>
<b>Total liabilities and total equity (2)</b>	<b>15,207</b>	<b>590,799</b>	<b>1,807,811</b>	<b>3,303,875</b>	<b>9,567,863</b>	<b>10,379,083</b>	<b>25,664,638</b>
<b>Net assets /liabilities (1) – (2)</b>	<b>4,784,176</b>	<b>1,670,158</b>	<b>2,208,142</b>	<b>1,528,957</b>	<b>(1,138,781)</b>	<b>(9,052,652)</b>	<b>-</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
<b>Dec 31, 2013</b>							
<b>Assets</b>							
Cash on hand and due from banks	139	-	-	-	-	2,114,959	2,115,098
Deposits with other banks	232,525	-	23,000	-	-	479	256,004
Loans to banks	1,348,417	1,808,643	2,747,493	3,085,028	5,023,896	23,145	14,036,622
Loans to other customers	872,795	365,268	1,676,454	1,792,655	3,118,417	273,759	8,099,348
Financial assets at fair value through profit or loss	-	-	-	-	-	1,423	1,423
Assets available for sale	1,182,940	-	-	-	-	360,303	1,543,243
Assets held to maturity	-	1,070	-	-	500	33	1,603
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	65,214	65,214
Non-current assets held for sale	-	-	-	-	-	34,220	34,220
Other assets	-	-	-	-	-	15,416	15,416
<b>Total assets (1)</b>	<b>3,636,816</b>	<b>2,174,981</b>	<b>4,446,947</b>	<b>4,877,683</b>	<b>8,142,813</b>	<b>2,888,951</b>	<b>26,168,191</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
<b>Dec 31, 2013</b>							
<b>Liabilities</b>							
Deposits	-	-	-	-	-	166,776	166,776
Borrowings	1,656,571	81,194	1,234,164	3,196,456	5,966,054	55,813	12,190,252
Bonds payable	-	-	229,053	458,106	3,028,141	94,339	3,809,639
Other liabilities	-	-	-	-	-	1,113,245	1,113,245
<b>Total liabilities</b>	<b>1,656,571</b>	<b>81,194</b>	<b>1,463,217</b>	<b>3,654,562</b>	<b>8,994,195</b>	<b>1,430,173</b>	<b>17,279,912</b>
<b>Equity</b>							
Founder's capital	-	-	-	-	-	6,543,739	6,543,739
Retained earnings and reserves	-	-	-	-	-	2,117,372	2,117,372
Other reserves	-	-	-	-	-	25,400	25,400
Net profit for the year	-	-	-	-	-	189,262	189,262
<b>Total equity attributable to equity holders of the parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,875,773</b>	<b>8,875,773</b>
Non-controlling interests	-	-	-	-	-	-	-
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,875,773</b>	<b>8,875,773</b>
Guarantee fund	-	-	-	-	-	12,506	12,506
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,888,279</b>	<b>8,888,279</b>
<b>Total liabilities and total equity (2)</b>	<b>1,656,571</b>	<b>81,194</b>	<b>1,463,217</b>	<b>3,654,562</b>	<b>8,994,195</b>	<b>10,318,452</b>	<b>26,168,191</b>
<b>Net assets /liabilities (1) – (2)</b>	<b>1,980,245</b>	<b>2,093,787</b>	<b>2,983,730</b>	<b>1,223,121</b>	<b>(851,382)</b>	<b>(7,429,501)</b>	<b>-</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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 a reasonable possible change in interest rates as of 31 March 2014 and 31 December 2013 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 2014 and 31 December 2013 which may not be indicative for the positions in other periods.

Bank	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
<b>Mar 31, 2014</b>							
<b>Assets</b>							
Cash on hand and due from banks	-	-	-	-	-	533,346	533,346
Deposits with other banks	578,867	166,800	-	-	-	48	745,715
Loans to banks	1,686,795	1,602,110	2,459,249	3,135,686	5,094,381	17,498	13,995,719
Loans to other customers	1,006,839	492,047	1,537,204	1,697,146	3,333,236	275,458	8,341,930
Assets available for sale	1,510,150	-	-	-	-	392,079	1,902,229
Investments in subsidiaries	-	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	63,578	63,578
Non-current assets held for sale	-	-	-	-	-	34,234	34,234
Other assets	-	-	-	-	-	4,529	4,529
<b>Total assets (1)</b>	<b>4,782,651</b>	<b>2,260,957</b>	<b>3,996,453</b>	<b>4,832,832</b>	<b>8,427,617</b>	<b>1,356,894</b>	<b>25,657,404</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
<b>Mar 31, 2014</b>							
<b>Liabilities</b>							
Deposits	-	-	-	-	-	152,831	152,831
Borrowings	15,207	590,799	1,578,124	2,844,500	6,530,542	62,641	11,621,813
Bonds payable	-	-	229,687	459,375	3,037,321	143,365	3,869,748
Other liabilities	-	-	-	-	-	1,065,840	1,065,840
<b>Total liabilities</b>	<b>15,207</b>	<b>590,799</b>	<b>1,807,811</b>	<b>3,303,875</b>	<b>9,567,863</b>	<b>1,424,677</b>	<b>16,710,232</b>
<b>Equity</b>							
Founder's capital	-	-	-	-	-	6,543,739	6,543,739
Retained earnings and reserves	-	-	-	-	-	2,308,560	2,308,560
Other reserves	-	-	-	-	-	35,461	35,461
Net profit for the year	-	-	-	-	-	46,872	46,872
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,934,632</b>	<b>8,934,632</b>
Guarantee fund	-	-	-	-	-	12,540	12,540
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,947,172</b>	<b>8,947,172</b>
<b>Total liabilities and total equity (2)</b>	<b>15,207</b>	<b>590,799</b>	<b>1,807,811</b>	<b>3,303,875</b>	<b>9,567,863</b>	<b>10,371,849</b>	<b>25,657,404</b>
<b>Net assets /liabilities (1) – (2)</b>	<b>4,767,444</b>	<b>1,670,158</b>	<b>2,188,642</b>	<b>1,528,957</b>	<b>(1,140,246)</b>	<b>(9,014,955)</b>	<b>-</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
<b>Dec 31, 2013</b>							
<b>Assets</b>							
Cash on hand and due from banks	-	-	-	-	-	2,114,959	2,114,959
Deposits with other banks	232,181	-	-	-	-	6	232,187
Loans to banks	1,348,417	1,808,643	2,747,493	3,085,028	5,023,896	23,145	14,036,622
Loans to other customers	872,795	365,268	1,676,454	1,792,655	3,118,417	273,759	8,099,348
Assets available for sale	1,173,066	-	-	-	-	358,976	1,532,042
Investments in subsidiaries	-	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	64,880	64,880
Non-current assets held for sale	-	-	-	-	-	34,220	34,220
Other assets	-	-	-	-	-	12,203	12,203
<b>Total assets (1)</b>	<b>3,626,459</b>	<b>2,173,911</b>	<b>4,423,947</b>	<b>4,877,683</b>	<b>8,142,313</b>	<b>2,918,272</b>	<b>26,162,585</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- Interest bearing	Total
<b>Dec 31, 2013</b>							
<b>Liabilities</b>							
Deposits	-	-	-	-	-	166,776	166,776
Borrowings	1,656,571	81,194	1,234,164	3,196,456	5,966,054	55,813	12,190,252
Bonds payable	-	-	229,053	458,106	3,028,141	94,339	3,809,639
Other liabilities	-	-	-	-	-	1,107,129	1,107,129
<b>Total liabilities</b>	<b>1,656,571</b>	<b>81,194</b>	<b>1,463,217</b>	<b>3,654,562</b>	<b>8,994,195</b>	<b>1,424,057</b>	<b>17,273,796</b>
<b>Equity</b>							
Founder's capital	-	-	-	-	-	6,543,739	6,543,739
Retained earnings and reserves	-	-	-	-	-	2,119,402	2,119,402
Other reserves	-	-	-	-	-	23,984	23,984
Net profit for the year	-	-	-	-	-	189,158	189,158
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,876,283</b>	<b>8,876,283</b>
Guarantee fund	-	-	-	-	-	12,506	12,506
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,888,789</b>	<b>8,888,789</b>
<b>Total liabilities and total equity (2)</b>	<b>1,656,571</b>	<b>81,194</b>	<b>1,463,217</b>	<b>3,654,562</b>	<b>8,994,195</b>	<b>10,312,846</b>	<b>26,162,585</b>
<b>Net assets /liabilities (1) – (2)</b>	<b>1,969,888</b>	<b>2,092,717</b>	<b>2,960,730</b>	<b>1,223,121</b>	<b>(851,882)</b>	<b>(7,394,574)</b>	<b>-</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

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**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.2. Currency risk**

Currency risk represents the exposure of the Bank to changes in foreign exchange rates and arises, above all, out of total asset, total liability and equity currency mismatch that could result in higher expenses and/or not realized projected income. The basic principles for managing HBOR's currency risk are determined in the internal documents as well as in the decisions and conclusions made by the Managing Board and the Asset and Liability Management Committee. Methods for the measurement, i.e. assessment, monitoring, management and control 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 contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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 2014 and 31 December 2013 in HRK and foreign currencies can be shown as follows:

Group	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
<b>Mar 31, 2014</b>						
<b>Assets</b>						
Cash on hand and due from banks	4,704	37,735	672	43,111	490,795	533,906
Deposits with other banks	-	745,715	-	745,715	20,023	765,738
Loans to banks	-	8,635,189	-	8,635,189	5,360,530	13,995,719
Loans to other customers	15,624	3,605,961	-	3,621,585	4,720,345	8,341,930
Financial assets at fair value through profit or loss	-	544	-	544	927	1,471
Assets available for sale	-	339,606	-	339,606	1,580,063	1,919,669
Assets held to maturity	-	1,484	-	1,484	-	1,484
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	63,886	63,886
Non-current assets held for sale	-	-	-	-	34,234	34,234
Other assets	-	591	-	591	6,010	6,601
<b>Total assets (1)</b>	<b>20,328</b>	<b>13,366,825</b>	<b>672</b>	<b>13,387,825</b>	<b>12,276,813*</b>	<b>25,664,638</b>
<b>Liabilities</b>						
Deposits	21,795	27,995	38	49,828	103,003	152,831
Borrowings	-	9,850,941	-	9,850,941	1,770,872	11,621,813
Bonds payable	-	3,869,748	-	3,869,748	-	3,869,748
Other liabilities	-	6,523	14,038	20,561	1,052,442	1,073,003
<b>Total liabilities</b>	<b>21,795</b>	<b>13,755,207</b>	<b>14,076</b>	<b>13,791,078</b>	<b>2,926,317</b>	<b>16,717,395</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,543,739	6,543,739
Retained earnings and reserves	-	-	-	-	2,306,634	2,306,634
Other reserves	-	-	-	-	37,184	37,184
Net profit for the year	-	-	-	-	47,146	47,146
<b>Total equity attributable to equity holders of the parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,934,703</b>	<b>8,934,703</b>
Non-controlling interests	-	-	-	-	-	-
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,934,703</b>	<b>8,934,703</b>
Guarantee fund	-	12,540	-	12,540	-	12,540
<b>Total equity</b>	<b>-</b>	<b>12,540</b>	<b>-</b>	<b>12,540</b>	<b>8,934,703</b>	<b>8,947,243</b>
<b>Total liabilities and total equity (2)</b>	<b>21,795</b>	<b>13,767,747</b>	<b>14,076</b>	<b>13,803,618</b>	<b>11,861,020</b>	<b>25,664,638</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>(1,467)</b>	<b>(400,922)</b>	<b>(13,404)**</b>	<b>(415,793)</b>	<b>415,793</b>	<b>-</b>

\*Amounts linked to a one-way currency clause represent HRK 589,316 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 contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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 2014 and 31 December 2013 in HRK and foreign currencies can be shown as follows:

Group	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
<b>Dec 31, 2013</b>						
<b>Assets</b>						
Cash on hand and due from banks	10,237	42,552	664	53,453	2,061,645	2,115,098
Deposits with other banks	-	222,540	-	222,540	33,464	256,004
Loans to banks	-	8,286,624	-	8,286,624	5,749,998	14,036,622
Loans to other customers	15,559	3,247,413	-	3,262,972	4,836,376	8,099,348
Financial assets at fair value through profit or loss	-	290	-	290	1,133	1,423
Assets available for sale	-	322,885	-	322,885	1,220,358	1,543,243
Assets held to maturity	-	1,603	-	1,603	-	1,603
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	65,214	65,214
Non-current assets held for sale	-	-	-	-	34,220	34,220
Other assets	-	346	-	346	15,070	15,416
<b>Total assets (1)</b>	<b>25,796</b>	<b>12,124,253</b>	<b>664</b>	<b>12,150,713</b>	<b>14,017,478*</b>	<b>26,168,191</b>
<b>Liabilities</b>						
Deposits	26,932	36,065	38	63,035	103,741	166,776
Borrowings	-	8,774,674	-	8,774,674	3,415,578	12,190,252
Bonds payable	-	3,809,639	-	3,809,639	-	3,809,639
Other liabilities	-	5,353	13,703	19,056	1,094,189	1,113,245
<b>Total liabilities</b>	<b>26,932</b>	<b>12,625,731</b>	<b>13,741</b>	<b>12,666,404</b>	<b>4,613,508</b>	<b>17,279,912</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,543,739	6,543,739
Retained earnings and reserves	-	-	-	-	2,117,372	2,117,372
Other reserves	-	-	-	-	25,400	25,400
Net profit for the year	-	-	-	-	189,262	189,262
<b>Total equity attributable to equity holders of the parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,875,773</b>	<b>8,875,773</b>
Non-controlling interests	-	-	-	-	-	-
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,875,773</b>	<b>8,875,773</b>
Guarantee fund	-	12,506	-	12,506	-	12,506
<b>Total equity</b>	<b>-</b>	<b>12,506</b>	<b>-</b>	<b>12,506</b>	<b>8,875,773</b>	<b>8,888,279</b>
<b>Total liabilities and total equity (2)</b>	<b>26,932</b>	<b>12,638,237</b>	<b>13,741</b>	<b>12,678,910</b>	<b>13,489,281</b>	<b>26,168,191</b>
<b>Net assets / liabilities (1) – (2)</b>	<b>(1,136)</b>	<b>(513,984)</b>	<b>(13,077)**</b>	<b>(528,197)</b>	<b>528,197</b>	<b>-</b>

\*Amounts linked to a one-way currency clause represent HRK 642,112 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 contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(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 2014 and 31 December 2013 in HRK and foreign currencies can be shown as follows:

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
<b>Mar 31, 2014</b>						
<b>Assets</b>						
Cash on hand and due from banks	4,704	37,735	672	43,111	490,235	533,346
Deposits with other banks	-	745,715	-	745,715	-	745,715
Loans to banks	-	8,635,189	-	8,635,189	5,360,530	13,995,719
Loans to other customers	15,624	3,605,961	-	3,621,585	4,720,345	8,341,930
Assets available for sale	-	330,026	-	330,026	1,572,203	1,902,229
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	63,578	63,578
Non-current assets held for sale	-	-	-	-	34,234	34,234
Other assets	-	1	-	1	4,528	4,529
<b>Total assets (1)</b>	<b>20,328</b>	<b>13,354,627</b>	<b>672</b>	<b>13,375,627</b>	<b>12,281,777*</b>	<b>25,657,404</b>
<b>Liabilities</b>						
Deposits	21,795	27,995	38	49,828	103,003	152,831
Borrowings	-	9,850,941	-	9,850,941	1,770,872	11,621,813
Bonds payable	-	3,869,748	-	3,869,748	-	3,869,748
Other liabilities	-	1,035	14,013	15,048	1,050,792	1,065,840
<b>Total liabilities</b>	<b>21,795</b>	<b>13,749,719</b>	<b>14,051</b>	<b>13,785,565</b>	<b>2,924,667</b>	<b>16,710,232</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,543,739	6,543,739
Retained earnings and reserves	-	-	-	-	2,308,560	2,308,560
Other reserves	-	-	-	-	35,461	35,461
Net profit for the year	-	-	-	-	46,872	46,872
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,934,632</b>	<b>8,934,632</b>
Guarantee fund	-	12,540	-	12,540	-	12,540
<b>Total equity</b>	<b>-</b>	<b>12,540</b>	<b>-</b>	<b>12,540</b>	<b>8,934,632</b>	<b>8,947,172</b>
<b>Total liabilities and total equity (2)</b>	<b>21,795</b>	<b>13,762,259</b>	<b>14,051</b>	<b>13,798,105</b>	<b>11,859,299</b>	<b>25,657,404</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>(1,467)</b>	<b>(407,632)</b>	<b>(13,379)**</b>	<b>(422,478)</b>	<b>422,478</b>	<b>-</b>

\* Amounts linked to a one-way currency clause represent HRK 589,316 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 contain a summary of significant accounting policies and other explanatory information (continued)

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(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 2014 and 31 December 2013 in HRK and foreign currencies can be shown as follows:

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
<b>Dec 31, 2013</b>						
<b>Assets</b>						
Cash on hand and due from banks	10,237	42,552	664	53,453	2,061,506	2,114,959
Deposits with other banks	-	222,307	-	222,307	9,880	232,187
Loans to banks	-	8,286,624	-	8,286,624	5,749,998	14,036,622
Loans to other customers	15,559	3,247,413	-	3,262,972	4,836,376	8,099,348
Assets available for sale	-	319,539	-	319,539	1,212,503	1,532,042
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	64,880	64,880
Non-current assets held for sale	-	-	-	-	34,220	34,220
Other assets	-	-	-	-	12,203	12,203
<b>Total assets (1)</b>	<b>25,796</b>	<b>12,118,435</b>	<b>664</b>	<b>12,144,895</b>	<b>14,017,690*</b>	<b>26,162,585</b>
<b>Liabilities</b>						
Deposits	26,932	36,065	38	63,035	103,741	166,776
Borrowings	-	8,774,674	-	8,774,674	3,415,578	12,190,252
Bonds payable	-	3,809,639	-	3,809,639	-	3,809,639
Other liabilities	-	1,401	13,683	15,084	1,092,045	1,107,129
<b>Total liabilities</b>	<b>26,932</b>	<b>12,621,779</b>	<b>13,721</b>	<b>12,662,432</b>	<b>4,611,364</b>	<b>17,273,796</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,543,739	6,543,739
Retained earnings and reserves	-	-	-	-	2,119,402	2,119,402
Other reserves	-	-	-	-	23,984	23,984
Net profit for the year	-	-	-	-	189,158	189,158
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,876,283</b>	<b>8,876,283</b>
Guarantee fund	-	12,506	-	12,506	-	12,506
<b>Total equity</b>	<b>-</b>	<b>12,506</b>	<b>-</b>	<b>12,506</b>	<b>8,876,283</b>	<b>8,888,789</b>
<b>Total liabilities and total equity (2)</b>	<b>26,932</b>	<b>12,634,285</b>	<b>13,721</b>	<b>12,674,938</b>	<b>13,487,647</b>	<b>26,162,585</b>
<b>Net assets / liabilities (1) – (2)</b>	<b>(1,136)</b>	<b>(515,850)</b>	<b>(13,057)**</b>	<b>(530,043)</b>	<b>530,043</b>	<b>-</b>

\*Amounts linked to a one-way currency clause represent HRK 642,112 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 contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

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## **16. Risk management (continued)**

### **16.5. Operational risk**

Operational risk is the risk of loss arising from inadequate or failed internal processes, people, systems or external events.

Particularity of operational risk when compared to other types of risk is reflected in its presence throughout the organisation and its management in all organisational units of the Bank.

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

The basic principles of operational risk management were identified in the umbrella act, the Operational Risk Management Policy, which sets up the structure of management and accountability in the system, determines the approach for the calculation of capital requirements for operational risk and establishes the reporting system.

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 Head of the IT System Security is in charge of monitoring the security of the IT system. Within this function, a system for the management of business continuity was established in 2013.

### **16.6. Outsourcing risk**

Outsourcing means the entering into contracts with outside providers of services for the performance of HBOR's activities that the Bank would otherwise provide on its own. 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 and good banking practices applicable to the Bank's business. The Risk Management organisational unit has determined, through the internal documents, the management of this risk and the procedures for the outsourcing of activities, the rules for the management of relations with the service providers and the obligation to reduce the risk to the lowest level possible. The Risk Management organisational unit is in charge of monitoring this risk.

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

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(All amounts are expressed in HRK thousand)

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

The Bank's long-term borrowings have no quoted market price, and their fair value is estimated as the present value of future cash flows, discounted at interest rates in effect at the Statement of Financial Position date for new borrowings of a similar nature and with a similar remaining maturity. As the Bank's long term borrowings mostly bear variable interest, the Bank estimates that its carrying amount is reasonable approximation of fair value.

The fair value of bonds issued by HBOR on 31 March 2014 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 of three levels of inputs to valuation techniques used to measure fair value as follows:

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

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

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

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

Group	Mar 31, 2014			Dec 31, 2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Financial assets at fair value through profit or loss:</b>						
Shares in investment funds recognised at fair value through profit or loss	-	1,471	-	-	1,423	-
<b>Total financial assets at fair value through profit or loss</b>	<b>-</b>	<b>1,471</b>	<b>-</b>	<b>-</b>	<b>1,423</b>	<b>-</b>
<b>Assets available for sale:</b>						
<b>Debt Instruments:</b>						
<b>Listed debt instruments:</b>						
Bonds of the Ministry of Finance of the Republic of Croatia	328,142	-	-	344,825	-	-
Treasury bills of the Ministry of Finance of the Republic of Croatia	1,183,755	-	-	823,728	-	-
Accrued interest	5,620	-	-	8,490	-	-
<b>Total debt instruments</b>	<b>1,517,517</b>	<b>-</b>	<b>-</b>	<b>1,177,043</b>	<b>-</b>	<b>-</b>
<b>Equity Instruments:</b>						
Investment in shares of foreign companies	-	22	-	-	22	-
Investment in financial institutions shares	-	161	-	-	161	-
Shares of foreign financial institutions – EIF	-	14,242	-	-	14,204	-
Corporate shares	-	-	-	-	-	-
<b>Total equity instruments</b>	<b>-</b>	<b>14,425</b>	<b>-</b>	<b>-</b>	<b>14,387</b>	<b>-</b>
<b>Investments in Investment funds:</b>						
Shares classified as assets available for sale	-	387,727	-	-	351,813	-
<b>Total investments in Investment funds</b>	<b>-</b>	<b>387,727</b>	<b>-</b>	<b>-</b>	<b>351,813</b>	<b>-</b>
<b>Total assets available for sale</b>	<b>1,517,517</b>	<b>402,152</b>	<b>-</b>	<b>1,177,043</b>	<b>366,200</b>	<b>-</b>

In the reporting period, there were no items of financial assets or financial liabilities that should be reclassified from level 1 to level 2 or vice versa in terms of the fair value hierarchy.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

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(All amounts are expressed in HRK thousand)

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

Bank	Mar 31, 2014			Dec 31, 2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Assets available for sale:</b>						
<b>Debt instruments:</b>						
<b>Listed debt instruments:</b>						
Bonds of the Ministry of Finance of the Republic of Croatia	311,970	-	-	334,951	-	-
Treasury bills of the Ministry of finance of the Republic of Croatia	1,183,755	-	-	823,728	-	-
Accrued interest	5,413	-	-	8,294	-	-
<b>Total debt instruments</b>	<b>1,501,138</b>	<b>-</b>	<b>-</b>	<b>1,166,973</b>	<b>-</b>	<b>-</b>
<b>Equity instruments:</b>						
Investment in shares of foreign companies	-	22	-	-	22	-
Investment in financial institutions shares	-	161	-	-	161	-
Shares of foreign financial institutions – EIF	-	14,242	-	-	14,204	-
Corporate shares	-	-	-	-	-	-
<b>Total equity instruments</b>	<b>-</b>	<b>14,425</b>	<b>-</b>	<b>-</b>	<b>14,387</b>	<b>-</b>
<b>Investments in investment funds:</b>						
Shares classified as assets available for sale	-	386,666	-	-	350,682	-
<b>Total investments in investment funds</b>	<b>-</b>	<b>386,666</b>	<b>-</b>	<b>-</b>	<b>350,682</b>	<b>-</b>
<b>Total assets available for sale</b>	<b>1,501,138</b>	<b>401,091</b>	<b>-</b>	<b>1,166,973</b>	<b>365,069</b>	<b>-</b>

In the reporting period, there were no items of financial assets or financial liabilities that should be reclassified from level 1 to level 2 or vice versa in terms of the fair value hierarchy.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

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(All amounts are expressed in HRK thousand)

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

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

The Managing Board estimates that their carrying amounts of financial assets and financial liabilities carried at amortized cost are a reasonable approximation of fair value. The fair value of bonds payable that is determined by using adjusted observable prices is presented in Note 12.

## 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 contain a summary of significant accounting policies and other explanatory information (continued)

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(All amounts are expressed in HRK thousand)

**18. Reporting by segments (continued)**

<b>Mar 31, 2014</b>	<b>Banking activities</b>	<b>Insurance activities</b>	<b>Other activities</b>	<b>Unallocated</b>	<b>Total</b>
Net interest income	105,634	367	1	-	106,002
Net fee income	2,191	297	161	(3)	2,646
Net income/(expenses) from financial operations	412	21	9	-	442
Net premiums earned	-	1,007	-	-	1,007
Other income	383	10	71	(76)	388
<b>Income from operating activities</b>	<b>108,620</b>	<b>1,702</b>	<b>242</b>	<b>(79)</b>	<b>110,485</b>
Operating costs	(49,787)	(1,116)	(295)	79	(51,119)
Impairment loss and provisions	(11,961)	89	5	-	(11,867)
Expenses for insured cases	-	(31)	-	-	(31)
Net change in provisions	-	(283)	-	-	(283)
Other expenses	-	(39)	-	-	(39)
<b>Operating expenses</b>	<b>(61,748)</b>	<b>(1,380)</b>	<b>(290)</b>	<b>79</b>	<b>(63,339)</b>
<b>Profit/(loss) before income tax</b>	<b>46,872</b>	<b>322</b>	<b>(48)</b>	<b>-</b>	<b>47,146</b>
Income tax	-	-	-	-	-
<b>Profit/(loss) for the year</b>	<b>46,872</b>	<b>322</b>	<b>(48)</b>	<b>-</b>	<b>47,146</b>
Assets of segment	25,657,404	43,493	1,914	(38,173)	25,664,638
<b>Total assets</b>	<b>25,657,404</b>	<b>43,493</b>	<b>1,914</b>	<b>(38,173)</b>	<b>25,664,638</b>
Liabilities of segment	16,710,232	7,115	92	(44)	16,717,395
Total equity	8,947,172	(1,122)	(178)	1,371	8,947,243
<b>Total liabilities and total equity</b>	<b>25,657,404</b>	<b>5,993</b>	<b>(86)</b>	<b>1,327</b>	<b>25,664,638</b>

Intra-group transactions are presented under "Unallocated".

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

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18. Reporting by segments (continued)

Mar 31, 2013	Banking activities	Insurance activities	Other activities	Unallocated	Total
Net interest income	123,834	404	2	-	124,240
Net fee income	1,777	241	110	(2)	2,126
Net income/(expenses) from financial operations	10,275	15	5	-	10,295
Net premiums earned	-	659	-	-	659
Other income	850	24	-	(18)	856
<b>Income from operating activities</b>	<b>136,736</b>	<b>1,343</b>	<b>117</b>	<b>(20)</b>	<b>138,176</b>
Operating costs	(27,711)	(1,013)	(146)	20	(28,850)
Impairment loss and provisions	(65,948)	(1)	12	-	(65,937)
Expenses for insured cases	-	-	-	-	-
Net change in provisions	-	(379)	-	-	(379)
Other expenses	-	(4)	-	-	(4)
<b>Operating expenses</b>	<b>(93,659)</b>	<b>(1,397)</b>	<b>(134)</b>	<b>20</b>	<b>(95,170)</b>
<b>Profit/(loss) before income tax</b>	<b>43,077</b>	<b>(54)</b>	<b>(17)</b>	<b>-</b>	<b>43,006</b>
Income tax	-	-	-	-	-
<b>Profit/(loss) for the year</b>	<b>43,077</b>	<b>(54)</b>	<b>(17)</b>	<b>-</b>	<b>43,006</b>
<b>Dec 31, 2013</b>					
Assets of segment	26,162,585	41,836	1,971	(38,201)	26,168,191
<b>Total assets</b>	<b>26,162,585</b>	<b>41,836</b>	<b>1,971</b>	<b>(38,201)</b>	<b>26,168,191</b>
Liabilities of segment	17,273,796	6,088	99	(71)	17,279,912
Total equity	8,888,789	(1,752)	(128)	1,370	8,888,279
<b>Total liabilities and total equity</b>	<b>26,162,585</b>	<b>4,336</b>	<b>(29)</b>	<b>1,299</b>	<b>26,168,191</b>

Intra-group transactions are presented under "Unallocated".

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

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(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 has 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 is sufficient for covering capital requirements regarding business risks.

Own funds consists of original own funds (Tier 1) and additional own funds (Tier 2), and is 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 the reporting date, own funds has 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 differ from international banking practice.

	Group		Bank	
	Mar 31, 2014	Dec 31, 2013	Mar 31, 2014	Dec 31, 2013
Original own funds – Tier 1	8,899,444	8,852,402	8,899,170	8,852,298
Additional own funds – Tier 2	298,427	298,905	298,427	298,905
<b>Total own funds</b>	<b>9,197,871</b>	<b>9,151,307</b>	<b>9,197,597</b>	<b>9,151,203</b>
Risk weighted assets	12,315,125	11,422,223	12,344,044	11,450,465
Capital requirements for currency risk	499,735	322,111	480,496	309,346
<b>Total capital requirements</b>	<b>12,814,860</b>	<b>11,744,334</b>	<b>12,824,540</b>	<b>11,759,811</b>
	%	%	%	%
<b>Capital ratio (Tier 1)</b>	<b>69.45</b>	<b>75.38</b>	<b>69.39</b>	<b>75.28</b>
<b>Capital adequacy ratio</b>	<b>71.78</b>	<b>77.92</b>	<b>71.72</b>	<b>77.82</b>
	HRK '000	HRK '000	HRK '000	HRK '000
<b>Own funds needed for ensuring capital adequacy according to regulatory requirements</b>	<b>1,025,189</b>	<b>1,409,320</b>	<b>1,025,963</b>	<b>1,411,177</b>

Minimum capital adequacy ratio as of the reporting date, i.e. 31<sup>st</sup> March 2014 was 8% (31 December 2013 12%).

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information (continued)

for the period 1 January – 31 March 2014 (unaudited)

(All amounts are expressed in HRK thousand)

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**19. Capital management (continued)**

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

The Managing Board of the Group does not expect any adverse effects on the level of capital adequacy as a result of application of the new regulations for credit institutions, taking into account that the Bank's capital adequacy ratio as of 31 March 2014 was 9 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**

On 1 April 2014, Mr Luka Burilović became a member of the Supervisory Board of HBOR as the newly appointed President of the Croatian Chamber of Economy replacing Ms Sabina Škrtić, Acting President of the Croatian Chamber of Economy.

Pursuant to the Act on HBOR, President of the Croatian Chamber of Economy is *ex officio* Member of the Supervisory Board of HBOR.