CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

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

Zagreb, October 2016

Contents

	Page
Statement of Persons Responsible for Consolidated Interim Condensed Financial Statements	3
Consolidated Interim Condensed Financial Statements of the Group:	4
Statement of Profit or Loss	4
Statement of Profit or Loss and Other Comprehensive Income	5
Statement of Financial Position	6
Statement of Cash Flows	7
Statement of Changes in Equity	8
Unconsolidated Interim Condensed Financial Statements of the Bank:	9
Statement of Profit or Loss	9
Statement of Profit or Loss and Other Comprehensive Income	10
Statement of Financial Position	11
Statement of Cash Flows	12
Statement of Changes in Equity	13
Notes to the Consolidated Interim Condensed Financial Statements include significant accounting policies and other explanations	14 – 92
Appendix - financial performance of the HKO Group	93 – 96

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

We confirm that, to the best of our knowledge, the Consolidated Interim Condensed Financial Statements of the Croatian Bank for Reconstruction and Development Group set out on pages 4 to 92 have been prepared in accordance with International Accounting Standard 34: "Interim Financial Reporting" applicable for the preparation of interim financial statements, and give a true and fair view of assets, liabilities, financial position, financial performance and cash flows for the reporting period.

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

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

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

Irena Adžić-Jagodić

Irena Adžić-Jagodić

Accounting Division Executive Director

Dušan Tomašević

President of the Managing Board

Martina Jus

Member of the Managing Board

Goran Filipić

Member of the Managing Board

Zagreb, 31 October 2016

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

	Notes	2016		2015	
		Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
Interest income	4	215,899	644,925	215,578	648,305
Interest expense	5	(112,639)	(340,875)	(117,575)	(358,088)
Net interest income		**103,260**	**304,050**	**98,003**	**290,217**
Fee income		7,235	22,361	3,688	12,889
Fee expense		(401)	(1,820)	(158)	(471)
Net fee income		**6,834**	**20,541**	**3,530**	**12,418**
Net gains/(losses) on financial operations		(246)	(11,037)	7,623	16,524
Other income		3,454	10,283	1,822	7,155
		113,302	**323,837**	**110,978**	**326,314**
Operating expenses	6	(37,353)	(119,252)	(35,839)	(103,336)
Impairment loss and provisions	7	(23,849)	(44,807)	(29,906)	(113,255)
Profit before income tax		**52,100**	**159,778**	**45,233**	**109,723**
Income tax		-	-	-	-
Profit for the year		**52,100**	**159,778**	**45,233**	**109,723**
Attributable to:					
Equity holders of the parent		**52,100**	**159,778**	**45,233**	**109,723**

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

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

	2016		2015	
	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
Profit for the year	**52,100**	**159,778**	**45,233**	**109,723**
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Increase in fair value of assets available for sale	40,070	72,153	10,198	30,382
Decrease in fair value of assets available for sale	(21,520)	(38,583)	(8,021)	(30,937)
Net foreign exchange on available for sale equity instruments	(18)	(405)	165	(83)
Transfer of realized gains on assets available for sale to statement of profit or loss	(1,825)	(2,079)	(4,497)	(6,110)
Transfer of realized losses on assets available for sale to statement of profit or loss	16	16	44	44
Deferred tax – other comprehensive income	(155)	(262)	(9)	(4)
Total items that may be reclassified subsequently to profit or loss	**16,568**	**30,840**	**(2,120)**	**(6,708)**
Other comprehensive income after income tax	**16,568**	**30,840**	**(2,120)**	**(6,708)**
Total comprehensive income after income tax	**68,668**	**190,618**	**43,113**	**103,015**
Attributable to:				
Equity holders of the parent	**68,668**	**190,618**	**43,113**	**103,015**

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

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

	Notes	Sep 30, 2016	Dec 31, 2015
Assets			
Cash on hand and due from banks	8	621,044	482,950
Deposits with other banks		153,218	359,397
Loans to financial institutions	9	11,816,293	12,522,652
Loans to other customers	10	10,595,101	9,223,069
Financial assets at fair value through profit or loss		5,610	3,707
Assets available for sale	11	3,533,884	2,870,315
Assets held to maturity		1,421	1,451
Investments in associates		-	-
Property, plant and equipment and intangible assets		57,366	62,238
Non-current assets held for sale		21,819	21,715
Other assets		5,207	5,278
Total assets		**26,810,963**	**25,552,772**
Liabilities			
Deposits		192,597	236,636
Borrowings	12	12,976,436	11,478,087
Bonds payable	13	3,043,125	3,366,566
Other liabilities		743,852	806,939
Total liabilities		**16,956,010**	**15,888,228**
Equity			
Founder's capital		6,926,632	6,926,632
Retained earnings and reserves		2,682,127	2,475,862
Other reserves		74,123	43,283
Profit for the year		159,778	206,265
Total equity attributable to equity holders of the parent		**9,842,660**	**9,652,042**
Guarantee fund		12,293	12,502
Total equity		**9,854,953**	**9,664,544**
Total liabilities and total equity		**26,810,963**	**25,552,772**

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

Consolidated Interim Condensed Financial Statements of the Group
Statement of Cash Flows
for the period 1 January – 30 September (unaudited)

(All amounts are expressed in HRK thousand)

	Notes	2016	2015
Operating activities			
Profit before income tax		159,778	109,723
Adjustments to reconcile to net cash from and used in operating activities:			
Depreciation		5,722	5,873
Income tax		262	4
Impairment loss and provisions		44,807	113,255
Accrued interest		(54,715)	(87,758)
Deferred fees		4,145	(4,956)
Operating profit before working capital changes		*159,999*	*136,141*
Changes in operating assets and liabilities:			
Net decrease in deposits with other banks, before provision for impairment		208,142	934,524
Net decrease in loans to financial institutions, before provision for impairment		744,463	1,082,735
Net (increase) in loans to other customers, before provision for impairment		(1,422,785)	(761,369)
Net (gain) on financial assets at fair value through profit or loss		(128)	(37)
Net realised (gain)/losses on assets available for sale		(2,063)	(6,066)
(Increase) of discount in assets available for sale, assets held to maturity and bonds payable		(1,726)	(14,455)
Net (increase) in non-current assets held for sale		(15)	-
Net (increase)/decrease in other assets, before provision for impairment		(154)	2,071
Net (decrease) in deposits from banks and companies		(44,040)	(43,456)
Net (decrease) in other liabilities, before provisions		(100,106)	(133,606)
Net cash (used in)/provided by operating activities		**(458,413)**	**1,196,482**
Investment activities			
(Purchase) of financial assets at fair value through profit or loss		(7,640)	(21,582)
Sale of financial assets at fair value through profit or loss		5,813	18,270
Net (purchase) of assets available for sale		(2,027,244)	(1,852,347)
Sale of assets available for sale		1,381,318	1,329,525
Net (purchase) of property, plant and equipment and intangible assets		(851)	(940)
Net cash (used in) investment activities		**(648,604)**	**(527,074)**
Financing activities			
Increase in founder's capital		-	-
Increase in borrowings – withdrawn funds		2,383,300	605,694
(Decrease) in borrowings – repayments of principal		(699,445)	(637,131)
(Decrease) in bonds payable – repayment of amortising note		(224,487)	(226,915)
Net cash (used in)/provided by financing activities		**1,459,368**	**(258,352)**
Effects of foreign currency to cash and cash equivalents			
Net foreign exchange		(211,901)	(57,668)
Net effect		**(211,901)**	**(57,668)**
Net increase in cash and cash equivalents		140,450	353,388
Balance as of 1 January, before provisions		486,743	129,462
Net increase in cash		140,450	353,388
Balance as of 30 September, before provisions	**8**	**627,193**	**482,850**
Additional note – Operational cash flows			
Interest paid		393,557	411,868
Interest received		539,897	467,953

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

Consolidated Interim Condensed Financial Statements of the Group
Statement of Changes in Equity
for the period 1 January – 30 September (unaudited)

(All amounts are expressed in HRK thousand)

	Founder`s capital	Retained earnings and reserves	Other reserves	Net profit for the year	Total equity
Balance as of 1 January 2015	**6,893,739**	**2,306,634**	**48,877**	**169,228**	**9,418,478**
Profit for the year	-	-	-	109,723	**109,723**
Other comprehensive income	-	-	(6,708)	-	**(6,708)**
Total comprehensive income	-	-	(6,708)	109,723	**103,015**
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2014 to retained earnings	-	169,228	-	(169,228)	-
Balance as of 30 September 2015	**6,893,739**	**2,475,862**	**42,169**	**109,723**	**9,521,493**
Balance as of 1 January 2016	**6,926,632**	**2,475,862**	**43,283**	**206,265**	**9,652,042**
Profit for the year	-	-	-	159,778	**159,778**
Other comprehensive income	-	-	30,840	-	**30,840**
Total comprehensive income	-	-	30,840	159,778	**190,618**
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2015 to retained earnings	-	206,265	-	(206,265)	-
Balance as of 30 September 2016	**6,926,632**	**2,682,127**	**74,123**	**159,778**	**9,842,660**

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

Unconsolidated Interim Condensed Financial Statements of the Bank
Statement of Profit or Loss
for the period 1 January – 30 September (unaudited)

(All amounts are expressed in HRK thousand)

	Notes	2016		2015	
		Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
Interest income	4	215,494	643,683	215,230	647,295
Interest expense	5	(112,639)	(340,875)	(117,575)	(358,088)
Net interest income		**102,855**	**302,808**	**97,655**	**289,207**
Fee income		6,658	20,678	3,111	11,213
Fee expense		(402)	(1,821)	(158)	(471)
Net fee income		**6,256**	**18,857**	**2,953**	**10,742**
Net gains/(losses) on financial operations		(312)	(11,128)	7,258	16,172
Other income		1,728	5,275	241	2,735
		110,527	**315,812**	**108,107**	**318,856**
Operating expenses	6	(34,961)	(112,011)	(33,380)	(96,804)
Impairment loss and provisions	7	(23,880)	(44,880)	(29,920)	(113,292)
Profit before income tax		**51,686**	**158,921**	**44,807**	**108,760**
Income tax		-	-	-	-
Profit for the year		**51,686**	**158,921**	**44,807**	**108,760**
Attributable to:					
Equity holders of the parent		**51,686**	**158,921**	**44,807**	**108,760**

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

h

Unconsolidated Interim Condensed Financial Statements of the Bank
Statement of Profit or Loss and Other Comprehensive Income
for the period 1 January – 30 September (unaudited)

(All amounts are expressed in HRK thousand)

	2016		2015	
	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
Profit for the year	**51,686**	**158,921**	**44,807**	**108,760**
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Increase in fair value of assets available for sale	39,207	70,321	9,549	29,229
Decrease in fair value of assets available for sale	(21,468)	(38,261)	(7,615)	(30,149)
Net foreign exchange on available for sale equity instruments	(18)	(405)	165	(83)
Transfer of realized gains on assets available for sale to statement of profit or loss	(1,788)	(1,878)	(4,258)	(5,725)
Transfer of realized losses on assets available for sale to statement of profit or loss	16	16	44	44
Total items that may be reclassified subsequently to profit or loss	**15,949**	**29,793**	**(2,115)**	**(6,684)**
Other comprehensive income after tax	**15,949**	**29,793**	**(2,115)**	**(6,684)**
Total comprehensive income after tax	**67,635**	**188,714**	**42,692**	**102,076**
Attributable to:				
Equity holders of the parent	**67,635**	**188,714**	**42,692**	**102,076**

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

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

(All amounts are expressed in HRK thousand)

	Notes	Sep 30, 2016	Dec 31, 2015
Assets			
Cash on hand and due from banks	8	620,596	482,708
Deposits with other banks		153,218	356,351
Loans to financial institutions	9	11,816,293	12,522,652
Loans to other customers	10	10,595,101	9,223,069
Assets available for sale	11	3,492,247	2,832,323
Investments in subsidiaries		36,124	36,124
Investments in associates		-	-
Property, plant and equipment and intangible assets		57,261	62,083
Non-current assets held for sale		21,819	21,715
Other assets		3,570	3,751
Total assets		**26,796,229**	**25,540,776**
Liabilities			
Deposits		192,597	236,636
Borrowings	12	12,976,436	11,478,087
Bonds payable	13	3,043,125	3,366,566
Other liabilities		733,119	797,040
Total liabilities		**16,945,277**	**15,878,329**
Equity			
Founder's capital		6,926,632	6,926,632
Retained earnings and reserves		2,682,131	2,476,903
Other reserves		70,975	41,182
Profit for the year		158,921	205,228
Capital		**9,838,659**	**9,649,945**
Guarantee fund		12,293	12,502
Total equity		**9,850,952**	**9,662,447**
Total liabilities and total equity		**26,796,229**	**25,540,776**

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

Unconsolidated Interim Condensed Financial Statements of the Bank
Statement of Cash Flows
for the period 1 January – 30 September (unaudited)

(All amounts are expressed in HRK thousand)

	Notes	2016	2015
Operating activities			
Profit before income tax		158,921	108,760
Adjustments to reconcile to net cash from and used in operating activities:			
Depreciation		5,670	5,734
Impairment loss and provisions		44,880	113,292
Accrued interest		(54,871)	(87,806)
Deferred fees		4,145	(4,956)
Operating profit before working capital changes		*158,745*	*135,024*
Changes in operating assets and liabilities:			
Net decrease in deposits with other banks, before provision for impairment		205,142	920,552
Net decrease in loans to financial institutions, before provision for impairment		744,463	1,082,735
Net (increase) in loans to other customers, before provision for impairment		(1,422,785)	(761,369)
Net realised (gain) on assets available for sale		(1,862)	(5,681)
(Increase) of discount in assets available for sale and bonds payable		(2,028)	(14,602)
Net (increase) in non-current assets held for sale		(15)	-
Net (increase)/decrease in other assets, before provision for impairment		(167)	1,620
Net (decrease) in deposits from banks and companies		(44,040)	(43,456)
Net (decrease) in other liabilities, before provisions		(100,366)	(134,771)
Net cash (used in)/provided by operating activities		**(462,913)**	**1,180,052**
Investment activities			
Net (purchase) of assets available for sale		(2,022,409)	(1,832,471)
Sale of assets available for sale		1,379,193	1,322,423
Net (purchase) of property, plant and equipment and intangible assets		(847)	(893)
Net cash provided by investment activities		**(644,063)**	**(510,941)**
Financing activities			
Increase in founder's capital		-	-
Increase in borrowings – withdrawn funds		2,383,300	605,694
(Decrease) in borrowings – repayments of principal		(699,445)	(637,131)
(Decrease) in bonds payable – repayment of amortising note		(224,487)	(226,915)
Net cash (used in)/provided by financing activities		**1,459,368**	**(258,352)**
Effects of foreign currency to cash and cash equivalents			
Net foreign exchange		(212,148)	(57,689)
Net effect		**(212,148)**	**(57,689)**
Net increase in cash and cash equivalents		140,244	353,070
Balance as of 1 January, before provisions		486,501	129,329
Net increase in cash		140,244	353,070
Balance as of 30 September, before provisions	**8**	**626,745**	**482,399**
Additional note – Operational cash flows			
Interest paid		393,557	411,868
Interest received		538,182	466,709

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

Unconsolidated Interim Condensed Financial Statements of the Bank
Statement of Changes in Equity
for the period 1 January – 30 September (unaudited)

(All amounts are expressed in HRK thousand

	Founder`s capital	Retained earnings and reserves	Other reserves	Net profit for the year	Total equity
Balance as of 1 January 2015	**6,893,739**	**2,308,560**	**46,943**	**168,343**	**9,417,585**
Profit for the year	-	-	-	108,760	**108,760**
Other comprehensive income	-	-	(6,684)	-	**(6,684)**
Total comprehensive income	-	-	(6,684)	108,760	**102,076**
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2014 to retained earnings	-	168,343	-	(168,343)	-
Balance as of 30 September 2015	**6,893,739**	**2,476,903**	**40,259**	**108,760**	**9,519,661**
Balance as of 1 January 2016	**6,926,632**	**2,476,903**	**41,182**	**205,228**	**9,649,945**
Profit for the year	-	-	-	158,921	**158,921**
Other comprehensive income	-	-	29,793	-	**188,714**
Total comprehensive income	-	-	29,793	158,921	**188,714**
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2015 to retained earnings	-	205,228	-	(205,228)	-
Balance as of 30 September 2016	**6,926,632**	**2,682,131**	**70,975**	**158,921**	**9,838,659**

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

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").

By the decision of the Commercial court in Zagreb dated 5 March 2015, the equity of Poslovni info servis d.o.o. was reduced from the amount of HRK 1,800 thousand to HRK 300 thousand in the register of companies by returning a portion of contribution to Hrvatsko kreditno osiguranje d.d..

This status change does not have an influence on the structure and mutual relations between the members of the Group.

The Croatian Bank for Reconstruction and Development is the 100% owner of HKO.

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

As of 30 September 2016, the Group had 356 employees (30 September 2015: 347 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.

h

1. General information (continued)

1.2. Bank (continued):

Supervisory Board and Managing Board

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

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

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

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

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

As of 30 September 2016, there were 342 employees at the Bank (30 September 2015: 331 employees).

Audit Committee

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

1. General information (continued)

1.2. Bank (continued):

1.2.1. Activities of the Bank:

The principal activities of the Bank comprise the following:

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

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

2. Basis of Preparation of the Interim Condensed Financial Statements

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

The Consolidated Interim Condensed Financial Standards for the period 1 January to 30 September 2016 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 2015.

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

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

3. Summary of significant accounting policies

3.1. Accounting policies

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

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

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

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

- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (effective for periods beginning on or after 1 January 2016, adopted in the European Union on 23 November 2015) – Agriculture: Bearer Plants, amending the existing standard pertaining to the bearer biological assets. These amendments do not affect the Group after the initial application.

- Amendments to IFRS 11 Joint Arrangements (effective for periods beginning on or after 1 January 2016, adopted in the European Union on 24 November 2015) amending the provisions of the existing Standard and clarifying accounting for acquisitions of interests in joint operations. These amendments do not affect the Group after the initial application.

- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (effective for periods beginning on or after 1 January 2016, adopted in the European Union on 2 December 2015) amending the existing Standard and clarifying acceptable methods of depreciation and amortization of long-term tangible and intangible assets. The Amendments aim to clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. These amendments do not affect the Group after the initial application.

- Annual Improvements 2012-2014 (effective for periods beginning on or after 1 January 2016, adopted in the European Union on 15 December 2015) – primary with a view to removing inconsistencies and clarifying wording pertaining to:

  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal,

3. Summary of significant accounting policies (continued)

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

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

- Annual Improvements 2012-2014 (continued):

  - IFRS 7 Financial Instruments: Disclosures

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

  - IAS 19 Employee Benefits – Discount rate: regional market issue – high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid,

  - IAS 34 Interim Financial Reporting – Disclosure of information "elsewhere in the interim financial report" – clarifies the meaning of the term and its application.

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

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

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

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

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

h

3. Summary of significant accounting policies (continued)

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

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

- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures (effective for periods beginning on or after 1 January 2016, adopted in the European Union on 22 September 2016) - Investment Entities – provide an exemption from the consolidation with an objective of clarifying the requirements when accounting for investment entities and provide relief in particular circumstances.

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

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

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

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

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

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

The Group shall apply IFRS 9 from the beginning of its mandatory application. At the moment, the effects of the implementation of IFRS 9 on the operations of HBOR and the Group are being assessed and appraised.

- New IFRS 15 Revenue from Contracts with Customers (effective for periods beginning on or after 1 January 2018 but has not been adopted in the European Union yet) establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. After its effective date, it will supersede the following standards and interpretations: IAS 18 Revenues; IAS 11 Construction Contracts; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services.
  The core principle of IFRS 15 is for companies to recognise revenues to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
  The standard establishes a five-step model framework that will be applied to revenues generated from contracts with customers irrespective of the type of transaction or activity as follows: identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognise revenues when (or as) the entity satisfies a performance obligation. However, the standard does not apply to financial instruments and other contractual rights or obligations within the scope of IAS 39 Financial Instruments: Recognition and Measurement, i.e. IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures, insurance contracts within the scope of IFRS 4 Insurance Contracts, and consequently it will not affect the Group after the initial application.

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

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

3. Summary of significant accounting policies (continued)

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

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

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

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

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

- Changes and amendments to IFRS 15 Revenue from Contracts with Customers (effective for periods beginning on or after 1 January 2018, but have not been adopted in the European Union yet) – Clarifications to IFRS 15 issued.
  The amendments do not change the underlying principles of the standard, just clarify and offer some additional transition relief.

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

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

3. Summary of significant accounting policies (continued)

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

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

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

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

h

4. Interest income

Interest income by borrowers:

	Group				Bank			
	2016		2015		2016		2015	
	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
Public sector	28,832	89,750	18,206	53,648	28,433	88,565	17,899	52,904
State-owned companies	10,936	29,574	11,468	28,516	10,936	29,574	11,468	28,516
Foreign companies	3,294	9,688	1,273	2,457	3,294	9,688	1,273	2,457
Domestic companies	86,967	249,075	85,114	268,456	86,967	249,075	85,108	268,438
Domestic financial institutions	70,347	215,894	78,683	236,801	70,341	215,837	78,648	236,553
Foreign financial institutions	34	97	238	775	34	97	238	775
Penalty interest	4,267	10,607	7,473	11,932	4,267	10,607	7,473	11,932
Other	11,222	40,240	13,123	45,720	11,222	40,240	13,123	45,720
	215,899	**644,925**	**215,578**	**648,305**	**215,494**	**643,683**	**215,230**	**647,295**

4. Interest income (continued)

Interest income by type of facility:

	Group				Bank			
	2016		2015		2016		2015	
	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
Interest on loans								
- financial institutions	70,341	216,033	78,818	237,106	70,341	216,033	78,818	237,106
- other customers	133,029	391,634	124,219	374,211	133,029	391,634	124,219	374,211
	203,370	607,667	203,037	611,317	203,370	607,667	203,037	611,317
Investments in securities	12,485	37,064	12,277	35,979	12,085	35,878	11,956	35,194
Deposits	44	194	263	1,008	39	138	237	784
Interest income on cash	-	-	1	1	-	-	-	-
	215,899	**644,925**	**215,578**	**648,305**	**215,494**	**643,683**	**215,230**	**647,295**

The difference between interest income and interest received or collected (see Statement of Cash Flows) mostly relates to the income in respect to interest subsidies inflows that are recorded upon payment. The discounted amount of the interest subsidies provided for the final user is presented as deferred interest income and is recognized in the statement of profit or loss and other comprehensive income on a time basis during the repayment of the loan. Interest income earned on this basis for the period 1 January to 30 September 2016 amounts to HRK 98,485 thousand (1 January to 30 September 2015: HRK 124,826 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.

5. Interest expense

Interest expense by type of payee:

	Group				Bank			
	2016		2015		2016		2015	
	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
Domestic financial institutions	3,001	8,324	2,688	7,966	3,001	8,324	2,688	7,966
Foreign financial institutions	109,638	332,551	114,887	350,122	109,638	332,551	114,887	350,122
	112,639	**340,875**	**117,575**	**358,088**	**112,639**	**340,875**	**117,575**	**358,088**

Interest expense by type of facility:

	Group				Bank			
	2016		2015		2016		2015	
	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
Borrowings	70,562	210,352	72,345	218,452	70,562	210,352	72,345	218,452
Debt securities	42,076	130,522	45,230	139,636	42,076	130,522	45,230	139,636
Deposits	1	1	-	-	1	1	-	-
	112,639	**340,875**	**117,575**	**358,088**	**112,639**	**340,875**	**117,575**	**358,088**

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.

6. Operating expenses

Operating expenses can be shown as follows:

	Group				Bank			
	2016		2015		2016		2015	
	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
General and administrative expenses:								
Employee expenses	22,334	66,031	20,702	61,300	21,674	63,731	19,988	59,179
Depreciation	1,764	5,722	1,860	5,873	1,747	5,670	1,815	5,734
Administration expenses	3,091	8,981	3,127	8,439	2,989	8,750	3,091	8,315
Material and services	7,327	20,573	7,921	21,114	6,921	19,351	7,516	19,872
	34,516	101,307	33,610	96,726	33,331	97,502	32,410	93,100
Other expenses:								
Taxes and contributions	174	514	207	480	171	510	206	477
Other expenses	2,663	17,431	2,022	6,130	1,459	13,999	764	3,227
	2,837	17,945	2,229	6,610	1,630	14,509	970	3,704
	37,353	**119,252**	**35,839**	**103,336**	**34,961**	**112,011**	**33,380**	**96,804**

6. Operating expenses (continued)

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

	Group				Bank			
	2016		2015		2016		2015	
	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
Changes in claims provisions	1,249	1,786	391	1,132	-	-	-	-
Changes in claims provisions, reinsurer's share	(437)	(1,031)	188	52	-	-	-	-
Expenses of insurance operations	**812**	**755**	**579**	**1,184**	**-**	**-**	**-**	**-**

The major portion of claims provisions relates to provisions for incurred but not reported losses. The used method is the expected loss quota method both for the gross amount and for the reinsurance share.

7. Impairment loss and provisions:

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

	Group				Bank			
	2016		2015		2016		2015	
	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30	Current period July 1 – September 30	Cumulatively January 1 – September 30
Impairment losses on cash on hand and due from banks	3,148	2,356	347	4,149	3,148	2,356	347	4,149
Impairment losses on deposits with other banks	(111)	(2,153)	(2,254)	(9,355)	(111)	(2,153)	(2,254)	(9,355)
Impairment losses on loans to financial institutions	(11,204)	(39,839)	(39,123)	(49,635)	(11,204)	(39,839)	(39,123)	(49,635)
Impairment losses on loans to other customers and interest	9,388	47,812	60,060	166,969	9,388	47,812	60,060	166,969
Impairment losses on non-current assets held for sale	(37)	(89)	(15)	(53)	(37)	(89)	(15)	(53)
Impairment losses on assets available	-	-	(601)	(314)	-	-	(601)	(314)
Impairment losses on other assets	(293)	348	(222)	(173)	(296)	348	(223)	(151)
Total increase in provision for impairment losses on assets	891	8,435	18,192	111,588	888	8.435	18,191	111,610
Provision for guarantees and commitments	21,680	18,817	10,960	15,102	21,680	18,817	10,960	15,102
Other provisions	1,278	17,555	754	(13,435)	1,312	17,628	769	(13,420)
Total increase/(decrease) in provision for guarantees and commitments and other provisions	22,958	36,372	11,714	1,667	22,992	36,445	11,729	1,682
Total increase of provisions	**23,849**	**44,807**	**29,906**	**113,255**	**23,880**	**44,880**	**29,920**	**113,292**

7. Impairment loss and provisions (continued):

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

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

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

In the reporting period, the Bank generated net impairment loss of HRK 44,807 thousand, which is considerably lower compared with the same period of the previous year due to a higher number of debtors undergoing bankruptcy proceedings in the first nine months of 2015 leading to higher provisions as well as due to a higher number of pre-bankruptcy settlement proceedings.

8. Cash on hand and due from banks

	Group		Bank	
	Sep 30, 2016	**Dec 31, 2015**	**Sep 30, 2016**	**Dec 31, 2015**
Account with the Croatian National Bank	12,061	107,353	12,061	107,353
Due from domestic banks in foreign currency	1,312	900	1,312	900
Due from foreign banks in foreign currency	613,372	378,248	613,372	378,248
Due from domestic banks in HRK	448	242	-	-
	627,193	486,743	626,745	486,501
Provisions for impairment losses	(6,149)	(3,793)	(6,149)	(3,793)
	621,044	**482,950**	**620,596**	**482,708**

Due from foreign banks in foreign currency represents the amount drawn from a loan tranche approved by the International Bank for Reconstruction and Development (IBRD) under the credit line „Croatia Export Finance Intermediation Loan Project" and amounts to EUR 0 thousand (31 December 2015: EUR 8,759 thousand).

9. Loans to financial institutions

	Group		Bank	
	Sep 30, 2016	**Dec 31, 2015**	**Sep 30, 2016**	**Dec 31, 2015**
Loans due within one year	3,004,666	3,596,750	3,004,666	3,596,750
Loans due in over one year	9,295,310	9,450,338	9,295,310	9,450,338
Accrued interest	12,646	14,043	12,646	14,043
Deferred recognition of loan origination	(66,872)	(66,533)	(66,872)	(66,533)
	12,245,750	12,994,598	12,245,750	12,994,598
Provisions for impairment losses	(429,457)	(471,946)	(429,457)	(471,946)
	11,816,293	**12,522,652**	**11,816,293**	**12,522,652**

Loans to financial institutions by purpose of the loan programmes:

	Group		Bank	
	Sep 30, 2016	**Dec 31, 2015**	**Sep 30, 2016**	**Dec 31, 2015**
Loan programme for reconstruction and development of the economy	2,831,859	3,244,064	2,831,859	3,244,064
Export financing	3,576,618	3,612,334	3,576,618	3,612,334
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	1,551,492	1,681,125	1,551,492	1,681,125
Loan programme for small and medium-sized enterprises	3,839,872	3,526,036	3,839,872	3,526,036
Loan programme for war-torn and demolished housing and business facilities	10,304	11,599	10,304	11,599
Other	489,831	971,930	489,831	971,930
Accrued interest	12,646	14,043	12,646	14,043
Deferred recognition of loan fees	(66,872)	(66,533)	(66,872)	(66,533)
	12,245,750	12,994,598	12,245,750	12,994,598
Provisions for impairment losses	(429,457)	(471,946)	(429,457)	(471,946)
	11,816,293	**12,522,652**	**11,816,293**	**12,522,652**

Average interest rates for total loans to financial institutions, at year level, are stated at 1.10% (1 January to 30 September 2015: 1.24%) and for loans under HBOR loan programmes excluding the liquidity reserve at 1.10% (1 January to 30 September 2015: 1.22%).

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 340,631 thousand (31 December 2015: HRK 606,930 thousand). The above placements are collateralised by securities in the amount of HRK 361,263 thousand (31 December 2015: HRK 645,673 thousand).

In the reporting period, provisions for loans to financial institutions in the amount of HRK 16,818 thousand were charged and provisions in the amount of HRK 56,657 thousand were reversed.

10. Loans to other customers

	Group		Bank	
	Sep 30, 2016	**Dec 31, 2015**	**Sep 30, 2016**	**Dec 31, 2015**
Domestic companies	9,541,360	8,721,759	9,541,360	8,721,759
State-owned companies	1,189,710	1,353,314	1,189,710	1,353,314
Public sector	1,465,739	678,730	1,465,739	678,730
Foreign companies	239,995	232,742	239,995	232,742
Non-profit institutions	1,712	5,972	1,712	5,972
Other	729,282	768,720	729,282	768,720
Accrued interest	77,621	69,086	77,621	69,086
Deferred recognition of loan origination fees	(113,574)	(102,098)	(113,574)	(102,098)
	13,131,845	11,728,225	13,131,845	11,728,225
Provisions for impairment losses	(2,536,744)	(2,505,156)	(2,536,744)	(2,505,156)
	10,595,101	**9,223,069**	**10,595,101**	**9,223,069**

Loans to other customers by loan programmes:

	Group		Bank	
	Sep 30, 2016	**Dec 31, 2015**	**Sep 30, 2016**	**Dec 31, 2015**
Loan programme for reconstruction and development of the economy	3,941,158	3,807,190	3,941,158	3,807,190
Export financing	3,982,006	3,254,161	3,982,006	3,254,161
Loan programme for reconstruction and development of infrastructure in the	2,965,008	2,513,074	2,965,008	2,513,074
Loan programme for small and medium-sized enterprises	2,185,693	2,115,820	2,185,693	2,115,820
Other	93,933	70,992	93,933	70,992
Accrued interest	77,621	69,086	77,621	69,086
Deferred recognition of loan origination fees	(113,574)	(102,098)	(113,574)	(102,098)
	13,131,845	11,728,225	13,131,845	11,728,225
Provisions for impairment losses	(2,536,744)	(2,505,156)	(2,536,744)	(2,505,156)
	10,595,101	**9,223,069**	**10,595,101**	**9,223,069**

Average interest rates for total loans to other customers, at year level, are stated at 2.00% (1 January to 30 September 2015: 1.95%).

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

In the reporting period, provisions for loans to other customers in the amount of HRK 183,144 thousand were charged and provisions in the amount of HRK 135,083 thousand were reversed.

Impairment of loans to other customers was reduced by the amount of HRK 253 thousand relating to the taking-over of the real estate in enforcement procedure. The amount of HRK 699 thousand relates to the write-off of interest due to purchase of HBOR's receivables and due to a settlement upon contract cancellation, whereas the amount of HKR 1,281 thousand relates to the write-off of principal debt due to a debtor's death and due to a settlement upon contract cancellation.

h

11. Assets available for sale

	Group		Bank	
	Sep 30, 2016	**Dec 31, 2015**	**Sep 30, 2016**	**Dec 31, 2015**
Debt instruments:				
Listed debt instruments:				
Bonds of the Ministry of Finance of the Republic of Croatia	923,540	679,617	884,719	644,532
Financial institution bonds	911	930	-	-
Corporate bonds	1,158	396	-	-
Treasury bills of the Ministry of Finance of the Republic of Croatia	1,657,325	1,418,963	1,657,325	1,418,963
Accrued interest	11,087	14,441	10,620	13,862
	2,594,021	**2,114,347**	**2,552,664**	**2,077,357**
Unlisted debt instruments:				
Corporate bonds	499	2,320	499	1,551
Accrued interest	81	31	81	30
	580	**2,351**	**580**	**1,581**
Equity instruments:				
Listed equity instruments:				
Investments in company's shares	8,887	-	8,887	-
	8,887	**-**	**8,887**	**-**
Unlisted equity instruments:				
Investments in shares of foreign legal entities	32	26	32	26
Investments in financial institutions shares	161	161	161	161
Shares of foreign financial institutions – EIF	25,644	24,420	25,644	24,420
Investments in company's shares	16,725	23,834	16,725	23,834
Provision for impairment losses	(16,725)	(23,834)	(16,725)	(23,834)
	25,837	**24,607**	**25,837**	**24,607**
Investments in investment funds:				
Shares classified as assets available for sale	904,559	729,010	904,279	728,778
	904,559	**729,010**	**904,279**	**728,778**
Balance	**3,533,884**	**2,870,315**	**3,492,247**	**2,832,323**

11. Assets available for sale (continued)

The following text contains investment breakdown:

	Date of issue	Date of maturity	Interest rate (%)	Group Sep 30, 2016	Group Dec 31, 2015	Bank Sep 30, 2016	Bank Dec 31, 2015
Debt instruments:							
Listed debt instruments:							
Bonds of the Republic of Croatia indexed to foreign currency:							
RHMF-O-19BA	29.11.2004.	29.11.2019.	5.375	49,122	51,273	47,766	47,883
RHMF-O-227E	22.7.2011.	22.7.2022.	6.5	170,659	169,365	170,659	169,365
RHMF-O-247E	10.7.2013.	10.7.2024.	5.75	17,594	17,238	12,404	12,188
RHMF-O-203E	5.3.2010.	5.3.2020.	6.5	882	884	-	-
Bonds of the Republic of Croatia in foreign currency:							
XS0645940288	8.7.2011.	9.7.2018.	5.875	57,752	58,159	57,752	58,159
XS0776179656	27.4.2012.	27.4.2017.	6.25	13,709	14,476	13,709	14,476
XS1117298916	11.3.2015.	11.3.2025.	3.0	53,750	48,455	53,750	48,455
Bonds of the Republic of Croatia in HRK:							
RHMF-O-167A	22.7.2011.	22.7.2016.	5.75	-	139,066	-	139,066
RHMF-O-172A	8.2.2007.	8.2.2017.	4.75	101,895	103,396	101,306	102,800
RHMF-O-187A	10.7.2013.	10.7.2018.	5.25	42,621	42,712	37,279	37,415
RHMF-O-17BA	25.11.2010.	25.11.2017.	6.25	163,452	4,839	158,678	-
RHMF-O-203A	5.3.2010.	5.3.2020.	6.75	3,021	2,974	-	-
RHMF-O-257A	9.7.2015.	9.7.2025.	4.5	9,202	8,755	-	-
RHMF-O-26CA	14.12.2015.	14.12.2026.	4.25	38,820	18,025	32,407	14,725
RHMF-O-217A	8.7.2016.	8.7.2021.	2.75	201,061	-	199,009	-
Financial institution bonds in HRK:							
RIBA-O-17BA	23.11.2012.	23.11.2017.	5.88	526	525	-	-
Financial institution bonds indexed to foreign currency:							
RIBA-O-177A	18.7.2011.	18.7.2017.	6.5	385	405	-	-
Corporate bonds in HRK:							
JDGL-O-20CA	21.12.2015.	21.12.2020.	5.85	770	-	-	-
Corporate bonds indexed to foreign currency:							
JRLN-O-17AA	24.10.2012.	24.10.2017.	6.5	388	396	-	-
Treasury bills in HRK up to 364 days			0.74 – 1.23	1,284,535	963,968	1,284,535	963,968
Treasury bills in foreign currency to 364 days			-	-	190,612	-	190,612
Treasury bills in foreign currency up to 455 days			0.63	372,790	264,383	372,790	264,383
Accrued interest				11,087	14,441	10,620	13,862
				2,594,021	**2,114,347**	**2,552,664**	**2,077,357**

11. Assets available for sale (continued)

The following text contains investment breakdown (continued):

	Date of issue	Date of maturity	Interest rate (%)	Group Sep 30, 2016	Group Dec 31, 2015	Bank Sep 30, 2016	Bank Dec 31, 2015
Unlisted debt instruments:							
Corporate bonds indexed to foreign currency:							
LNGU-O-31AE	24.7.2015.	15.10.2031.	4.5	499	1,551	499	1,551
Corporate bonds in HRK:							
JDGL-O-20CA	21.12.2015.	21.12.2020.	5.85	-	769	-	-
Accrued interest				81	31	81	30
				580	**2,351**	**580**	**1,581**
Equity instruments:							
Listed equity instruments:							
Investments in company's shares				8,887	-	8,887	-
				8,887	**-**	**8,887**	**-**
Unlisted equity instruments:							
Investments in shares of foreign legal entities				32	26	32	26
Investments in financial institutions shares				161	161	161	161
Shares of foreign financial institutions – EIF				25,644	24,420	25,644	24,420
Investments in company's shares				16,725	23,834	16,725	23,834
Provision for impairment losses				(16,725)	(23,834)	(16,725)	(23,834)
				25,837	**24,607**	**25,837**	**24,607**
Investments in investment funds in the Republic of Croatia				**904,559**	**729,010**	**904,279**	**728,778**
Total				**3,533,884**	**2,870,315**	**3,492,247**	**2,832,323**

12. Borrowings

	Group		Bank	
	Sep 30, 2016	**Dec 31, 2015**	**Sep 30, 2016**	**Dec 31, 2015**
Balance as of 1 January	11,453,796	11,572,516	11,453,796	11,572,516
New borrowings	2,383,300	769,062	2,383,300	769,062
Repayments	(699,445)	(848,277)	(699,445)	(848,277)
Net foreign exchange gains/(losses)	(173,917)	(39,505)	(173,917)	(39,505)
	12,963,734	11,453,796	12,963,734	11,453,796
Accrued interest	63,746	67,573	63,746	67,573
Deferred recognition of borrowing origination fees	(51,044)	(43,282)	(51,044)	(43,282)
Balance	**12,976,436**	**11,478,087**	**12,976,436**	**11,478,087**

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

13. Bonds payable

The book value of bonds includes interest.

Group and Bank	**Effective interest rate**	**Fair value Sep 30, 2016**	**Net book value Sep 30, 2016**	**Fair value Dec 31, 2015**	**Net book value Dec 31, 2015**
Bonds EUR 150 million	4.836	-	-	235,410	229,023
Bonds EUR 250 million	5.076	1,911,117	1,875,995	1,959,077	1,906,811
Bonds EUR 150 million	6.37	1,264,827	1,113,013	1,263,814	1,129,466
Accrued interest		-	54,611	-	101,852
Deferred recognition of bond payable origination fees		-	(494)	-	(586)
		3,175,944	**3,043,125**	**3,458,301**	**3,366,566**

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

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

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

h

14. Guarantees and commitments

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

The balance of total gross contingent liabilities as of 30 September 2016 amounted to HRK 6,142,426 thousand, which is significant increase of 36% as compared with the beginning of the year as a result of disbursements of approved loans and of guarantees issued in foreign currency and kuna. Overview of guarantees and commitments:

Group and Bank

	Sep 30, 2016	Dec 31, 2015
Guarantees issued in HRK	12,719	4,352
Guarantees issued in foreign currency	1,732,295	1,062,639
Undrawn loans	4,349,024	3,397,517
EIF – subscribed, not called up capital	48,049	48,864
Other irrevocable contingent liabilities	339	339
	6,142,426	4,513,711
Provisions for guarantees and commitments	(81,990)	(62,785)
	6,060,436	**4,450,926**

Guarantees

Issued guarantees and open letters of credit represent the liability to the Bank to make payments on behalf of customers if the customer is unable to honour its commitments towards third parties or in the event of a specific act, generally related to the export or import of goods and other purposes specified in the contracts with the customers. Guarantees and letters of credit bear the same credit risk as loans.
Bank guarantees are, to the extent of 81%, collateralized by the guarantees, deposits and bank guarantees or the liability was taken over by the Republic of Croatia.

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.

15. Related-party transactions

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

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

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

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

a) Related-party transactions

Group	Exposure Sep 30, 2016	Liabilities Sep 30, 2016	Exposure Dec 31, 2014	Liabilities Dec 31, 2014
Owner	3,338,457	150,720	2,388,181	183,488
Government funds, executive authorities and agencies	1,072,290	18,636	1,086,167	22,737
State-owned companies	1,213,480	2	1,513,557	7
Associates	7	-	9	-
Other intra-group transactions	-	-	-	-
Key management personnel	4,052	-	5,749	-
Total	**5,628,286**	**169,358**	**4,993,663**	**206,232**

Group	Income Sep 30, 2016	Expense Sep 30, 2016	Income Sep 30, 2015	Expense Sep 30, 2015
Owner	70,624	5,228	42,110	392
Government funds, executive authorities and agencies	15,920	952	10,,248	585
State-owned companies	38,069	9,877	28,658	3,800
Associates	536	-	533	89
Other intra-group transactions	-	53	-	53
Key management personnel	110	-	131	12
Total	**125,259**	**16,110**	**81,680**	**4,931**

15. Related-party transactions (continued)

a) Related-party transactions (continued)

Bank	Exposure Sep 30, 2016	Liabilities Sep 30, 2016	Exposure Dec 31, 2015	Liabilities Dec 31, 2015
Owner	3,338,457	150,720	2,388,181	183,488
Government funds, executive authorities and agencies	1,031,571	18,497	1,048,914	22,528
State-owned companies	1,213,091	-	1,513,155	4
Subsidiary companies	36,124	-	36,124	-
Associates	7	-	9	-
Key management personnel	4,052	-	5,476	-
Total	**5,623,302**	**169,217**	**4,991,859**	**206,020**

Bank	Income Sep 30, 2016	Expense Sep 30, 2016	Income Sep 30, 2015	Expense Sep 30, 2015
Owner	70,624	5,228	42,110	392
Government funds, executive authorities and agencies	14,565	544	8,602	11
State-owned companies	38,055	9,826	28,658	3,751
Subsidiary companies	-	-	-	-
Associates	536	-	533	89
Key management personnel	107	-	124	12
Total	**123,887**	**15,598**	**80,027**	**4,255**

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.

15. Related-party transactions (continued)

b) Collateral received

	Group		Bank	
	Sep 30, 2016	**Dec 31, 2015**	**Sep 30, 2016**	**Dec 31, 2015**
The Republic of Croatia	2,927,283	2,842,985	2,852,437	2,751,832
State agencies	625,683	646,430	625,683	646,430
Total	**3,552,966**	**3,489,415**	**3,478,120**	**3,398,262**

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

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

c) Salaries of key management personnel

Salaries include compensation paid for regular work, annual vacation, national holidays, paid leave, sick leave, jubilee awards and payments pursuant to contracts. Salaries for the Group in the reporting period amounted to HRK 5,965 thousand (1 January to 30 September 2015: HRK 7,861 thousand), and for the Bank amounted to HRK 5,139 thousand (1 January to 30 September 2015: HRK 6,974 thousand).

In the reporting period, remuneration for the work of the members of the Supervisory Board for the Group amounted to HRK 251 thousand (1 January to 30 September 2015: HRK 119 thousand) and for the Bank amounted to HRK 147 thousand (1 January to 30 September 2015: HRK 88 thousand) and it relates to members of the supervisory boards at associates and subsidiaries who were appointed by HBOR. Further to the Managing Board decision, since September 2014, remunerations for the work of the members of the supervisory board at subsidiary and associates that operate with losses have been suspended. The mentioned Decision has been annulled by the Decision of the Managing Board dated 20th April 2015.

16. Risk management

16.1. Introduction

Based on the Act on the Croatian Bank for Reconstruction and Development, the Bank is obliged to mitigate business risks directed by the principles of banking operations. In the process of risk management, the Bank identifies, estimates, measures, monitors, masters and controls the risks to which it is or might be exposed in the course of business. The mode, methods and frequency of risk estimations and measurements are prescribed by the internal documents of the Bank. In its daily operations, the Bank manages credit risk, liquidity risk, interest rate risk in the Bank's book, foreign exchange risk, operational risk and outsourcing risk by policies, procedures, methodologies, regulations, limits and controls.
The Bank has a functionally and organizationally separate and independent organizational unit for the control of business risks, which is directly responsible to the Managing Board. This organisational unit is responsible for definition, evaluation or measurement, and monitoring the risks to which the Bank is exposed or might be exposed in the course of its business. It carries out its role by performing analyses, giving suggestions and recommendations for adequate management of exposure to credit and non-credit risks, developing risk management policies, procedures and methodologies, recommending and controlling the accepted exposure limits as well as reporting to the Managing Board and the competent risk management committees.
When assessing or measuring risk, the Bank takes into account historical data, business plans, current and expected market conditions and the specific characteristics of the Bank as a special financial institution. The results of risk assessments or measurements and analyses carried out are presented to the risk management committees, the Managing Board and the Supervisory Board. For the purpose of managing, monitoring and control of credit risk, liquidity risk, interest rate risk in the Bank's book and foreign exchange risk, systems of limits are introduced. The Bank implements the sensitivity analyses and scenario analyses, provided that one or several risk factors are changed in regular or stressful circumstances, and the results of such analyses are reported to the competent bodies of HBOR. Systems of pro-active risk management are continuously developed for the purpose of reducing possible future risks.

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

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

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

16. Risk management (continued)

16.2. Credit risk

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

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

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

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

As of 30 September 2016, the highest credit exposure of the Group to one debtor equalled HRK 3,238,171 thousand (as of 31 December 2015: HRK 2,764,572 thousand), and of the Bank HRK 3,238,171 thousand (31 December 2015: HRK 2,763,386 thousand) without considering the effect of mitigation through collateral received.

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
	Sep 30, 2016	Dec 31, 2015	Sep 30, 2016	Dec 31, 2015
Assets				
Cash on hand and due from banks	621,038	482,939	620,590	482,697
Deposits with other banks	153,218	359,397	153,218	356,351
Loans to financial institutions	11,816,293	12,522,652	11,816,293	12,522,652
Loans to other customers	10,595,101	9,223,069	10,595,101	9,223,069
Financial assets at fair value through profit or loss	5,610	3,707	-	-
Assets available for sale	3,533,884	2,870,315	3,492,247	2,832,323
Assets held to maturity	1,421	1,451	-	-
Other assets	3,380	3,575	2,036	2,278
Total	**26,729,945**	**25,467,105**	**26,679,485**	**25,419,370**
Guarantees and commitments				
Guarantees issued in HRK	12,588	4,303	12,588	4,303
Issued guarantees in foreign currency	1,703,343	1,042,484	1,703,343	1,042,484
Undrawn loans	4,296,120	3,354,940	4,296,120	3,354,940
EIF – subscribed, not called up capital	48,050	48,864	48,050	48,864
Other irrevocable contingent liabilities	335	335	335	335
Total	**6,060,436**	**4,450,926**	**6,060,436**	**4,450,926**
Total credit risk exposure	**32,790,381**	**29,918,031**	**32,739,921**	**29,870,296**

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 Sep 30, 2016	Republic of Croatia	EU countries	Other countries	Total
Assets				
Cash on hand and due from banks	13,799	594,719	12,520	621,038
Deposits with other banks	4,519	148,699	-	153,218
Loans to financial institutions	11,816,293	-	-	11,816,293
Loans to other customers	10,363,029	-	232,072	10,595,101
Financial assets at fair value through profit or loss	5,610	-	-	5,610
Assets available for sale	3,508,208	25,676	-	3,533,884
Assets held to maturity	1,421	-	-	1,421
Other assets	2,974	406	-	3,380
Total	**25,715,853**	**769,500**	**244,592**	**26,729,945**
Guarantees and commitments				
Guarantees issued in HRK	11,384	1,204	-	12,588
Issued guarantees in foreign currency	1,703,343	-	-	1,703,343
Undrawn loans	4,296,120	-	-	4,296,120
EIF – subscribed, not called up capital	-	48,050	-	48,050
Other irrevocable contingent liabilities	335	-	-	335
Total	**6,011,182**	**49,254**	**-**	**6,060,436**
Total credit risk exposure	**31,727,035**	**818,754**	**244,592**	**32,790,381**

h

16. Risk management (continued)

16.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

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

16. Risk management (continued)

16.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

Bank Sep 30, 2016	Republic of Croatia	EU countries	Other countries	Total
Assets				
Cash on hand and due from banks	13,351	594,719	12,520	620,590
Deposits with other banks	4,519	148,699	-	153,218
Loans to financial institutions	11,816,293	-	-	11,816,293
Loans to other customers	10,363,029	-	232,072	10,595,101
Assets available for sale	3,466,571	25,676	-	3,492,247
Other assets	2,023	13	-	2,036
Total	**25,665,786**	**769,107**	**244,592**	**26,679,485**
Guarantees and commitments				
Guarantees issued in HRK	11,384	1,204	-	12,588
Issued guarantees in foreign currency	1,703,343	-	-	1,703,343
Undrawn loans	4,296,120	-	-	4,296,120
EIF – subscribed, not called up capital	-	48,050	-	48,050
Other irrevocable contingent liabilities	335	-	-	335
Total	**6,011,182**	**49,254**	**-**	**6,060,436**
Total credit risk exposure	**31,676,968**	**818,361**	**244,592**	**32,739,921**

h

16. Risk management (continued)

16.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

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

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
	Sep 30, 2016	**Sep 30, 2016**	**Dec 31, 2015**	**Dec 31, 2015**
Financial intermediation and insurance	15,948,837	-	15,448,725	-
Water and electric supply and other infrastructure	1,355,419	1,031,650	1,327,987	1,014,914
Tourism	3,242,698	285,763	2,615,100	188,306
Transport, warehousing and connections	1,687,179	810,170	1,589,312	202,870
Shipbuilding	1,890,494	331,417	1,213,286	349,937
Agriculture and fishery	555,587	78,685	602,769	120,446
Food industry	902,080	368,710	779,282	301,795
Construction industry	1,262,413	74,495	1,300,797	120,178
Other industry	474,909	138,553	462,418	128,268
Public administration	2,576,757	2,576,757	2,100,572	2,100,572
Education	58,359	52,198	29,101	22,928
Manufacture of basic metals and fabricated metal products, except machinery and equipment	306,065	69,368	241,181	49,443
Manufacture of chemicals and chemical products	259,460	16,610	47,936	20,360
Manufacture of other non-metallic mineral products	283,562	4,743	294,210	33,444
Pharmaceutical industry	582,143	24	602,278	1,904
Other	1,404,419	333,685	1,263,077	100,433
Total credit risk exposure	**32,790,381**	**6,172,828**	**29,918,031**	**4,755,798**

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
	Sep 30, 2016	**Sep 30, 2016**	**Dec 31, 2015**	**Dec 31, 2015**
Financial intermediation and insurance	15,941,139	-	15,440,062	-
Water and electric supply and other infrastructure	1,355,419	1,031,650	1,327,987	1,014,914
Tourism	3,242,698	285,763	2,615,100	188,306
Transport, warehousing and connections	1,686,735	809,725	1,588,911	202,469
Shipbuilding	1,890,494	331,417	1,213,286	349,937
Agriculture and fishery	555,587	78,685	602,769	120,446
Food industry	901,985	368,614	779,209	301,722
Construction industry	1,262,243	74,325	1,300,685	120,066
Other industry	474,718	138,361	462,180	128,030
Public administration	2,536,039	2,536,039	2,063,320	2,063,320
Education	58,359	52,198	29,101	22,928
Manufacture of basic metals and fabricated metal products, except machinery and equipment	305,282	68,586	241,164	49,426
Manufacture of chemicals and chemical products	259,440	16,591	47,908	20,332
Manufacture of other non-metallic mineral products	283,510	4,691	294,166	33,399
Pharmaceutical industry	582,119	-	601,449	1,075
Other	1,404,154	333,420	1,262,999	100,356
Total credit risk exposure	**32,739,921**	**6,130,065**	**29,870,296**	**4,716,726**

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

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

16. Risk management (continued)

16.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

The fair value of collateral for the Group as of 30 September 2016 amounted to HRK 26,617,553 thousand (31 December 2015: HRK 25,162,233 thousand), and for the Bank HRK 26,609,856 thousand (31 December 2015: HRK 25,153,570 thousand).

In the total net highest exposure of the Bank as of 30 September 2016, the credit risk of HRK 4,310,495 thousand (31 December 2015: HRK 3,394,974 thousand) is not covered with ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 871,314 thousand (31 December 2015: HRK 408,096 thousand), from local (regional) authorities of HRK 394,171 thousand (31 December 2015: HRK 348,089 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 243,352 thousand (31 December 2015: HRK 248,878 thousand), government funds of HRK 1,609 thousand (31 December 2015: HRK 2,860 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 2,552,664 thousand (31 December 2015: HRK 2,077,357 thousand). In addition, an amount of HRK 247,385 thousand (31 December 2015: HRK 309,694 thousand) relates to receivables from a majority state-owned company (controlling influence).

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

Financial intermediation includes mainly commercial banks.

Credit risk exposure by internal credit rating:

Internal credit rating	Historical default rate (%)	Historical default rate (%)	Group		Bank	
	Sep 30, 2016	Dec 31, 2015	Sep 30, 2016	Dec 31, 2015	Sep 30, 2016	Dec 31, 2015
A	1.63%	1.66%	31,189,259	28,279,955	31,138,799	28,232,220
B	34.40%	34.91%	1,601,122	1,638,076	1,601,122	1,638,076
C	95.18%	94.05%	-	-	-	-
	Total		32,790,381	29,918,031	32,739,921	29,870,296

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 Sep 30, 2016	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
Assets								
Cash on hand and due from banks	621,038	-	-	621,038	-	-	-	-
Deposits with other banks	153,218	-	-	153,218	-	-	-	-
Loans to financial institutions	11,367,778	448,515	-	11,816,293	-	-	-	-
Loans to other customers	9,500,976	1,094,125	-	10,595,101	2,368,901	35,392	-	2,404,293
Financial assets at fair value through profit or loss	5,610	-	-	5,610	-	-	-	-
Assets available for sale	3,533,884	-	-	3,533,884	2,602,561	-	-	2,602,561
Assets held to maturity	1,421	-	-	1,421	1,421	-	-	1,421
Other assets	2,951	429		3,380	2,450	429		2,879
Total	**25,186,876**	**1,543,069**	**-**	**26,729,945**	**4,975,333**	**35,821**	**-**	**5,011,154**
Guarantees and commitments								
Guarantees issued in HRK	12,588	-	-	12,588	1,798	-	-	1,798
Issued guarantees in foreign currency	1,654,733	48,610	-	1,703,343	278,001	-	-	278,001
Undrawn loans	4,286,677	9,443	-	4,296,120	881,540	-	-	881,540
EIF – subscribed, not called up capital	48,050	-	-	48,050	-	-	-	-
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
Total	**6,002,383**	**58,053**	**-**	**6,060,436**	**1,161,674**	**-**	**-**	**1,161,674**
Total credit risk exposure	**31,189,259**	**1,601,122**	**-**	**32,790,381**	**6,137,007**	**35,821**	**-**	**6,172,828**

16. Risk management (continued)

16.2. Credit risk (continued)

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

Credit risk analysis, before and after the effect of mitigation through collateral received according to the type of financial assets on positions of assets and guarantees and commitments by internal credit rating, is as follows (continued):

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

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 Sep 30, 2016	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
Assets								
Cash on hand and due from banks	620,590	-	-	620,590	-	-	-	-
Deposits with other banks	153,218	-	-	153,218	-	-	-	-
Loans to financial institutions	11,367,778	448,515	-	11,816,293	-	-	-	-
Loans to other customers	9,500,976	1,094,125	-	10,595,101	2,368,901	35,392	-	2,404,293
Assets available for sale	3,492,247	-	-	3,492,247	2,562,131	-	-	2,562,131
Other assets	1,607	429		2,036	1,538	429		1,967
Total	**25,136,416**	**1,543,069**	**-**	**26,679,485**	**4,932,570**	**35,821**	**-**	**4,968,391**
Guarantees and commitments								
Guarantees issued in HRK	12,588	-	-	12,588	1,798	-	-	1,798
Issued guarantees in foreign currency	1,654,733	48,610	-	1,703,343	278,001	-	-	278,001
Undrawn loans	4,286,677	9,443	-	4,296,120	881,540	-	-	881,540
EIF – subscribed, not called up capital	48,050	-	-	48,050	-	-	-	-
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
Total	**6,002,383**	**58,053**	**-**	**6,060,436**	**1,161,674**	**-**	**-**	**1,161,674**
Total credit risk exposure	**31,138,799**	**1,601,122**	**-**	**32,739,921**	**6,094,244**	**35,821**	**-**	**6,130,065**

In the total net highest exposure of the Group and the Bank, the amount of loans to other customers of HRK 1,534,831 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 648,337 thousand, local (regional) authorities of HRK 394,170 thousand, public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 243,352 thousand and the government funds of HRK 1,587 thousand. An additional amount of HRK 247,385 thousand relates to receivables from majority state-owned companies (controlling influence).

The amount of assets available for sale and held to maturity is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 2,593,334 thousand for the Group and HRK 2,552,664 thousand for the Bank.

Other assets of HRK 1,053 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds,

The amount of HRK 221,612 thousand relates to a guarantee issued in foreign currency, for which the liability was assumed by the Republic of Croatia.

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

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

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

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

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

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 Sep 30, 2016	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
Assets				
Cash on hand and due from banks	621,038	-	-	621,038
Deposits with other banks	153,218	-	-	153,218
Loans to financial institutions	11,329,622	38,156	448,515	11,816,293
Loans to other customers	9,355,592	145,384	1,094,125	10,595,101
Financial assets at fair value through profit or loss	5,610	-	-	5,610
Assets available for sale	3,533,884	-	-	3,533,884
Assets held to maturity	1,421	-	-	1,421
Other assets	2,631	320	429	3,380
Total	**25,003,016**	**183,860**	**1,543,069**	**26,729,945**
Guarantees and commitments				
Guarantees issued in HRK	12,588	-	-	12,588
Issued guarantees in foreign currency	1,654,733	-	48,610	1,703,343
Undrawn loans	4,286,677	-	9,443	4,296,120
EIF – subscribed, not called up capital	48,050	-	-	48,050
Other irrevocable contingent liabilities	335	-	-	335
Total	**6,002,383**	**-**	**58,053**	**6,060,436**
Total credit risk exposure	**31,005,399**	**183,860**	**1,601,122**	**32,790,381**

16. Risk management (continued)

16.2. Credit risk (continued)

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

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

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

2

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 Sep 30, 2016	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
Assets				
Cash on hand and due from banks	620,590	-	-	620,590
Deposits with other banks	153,218	-	-	153,218
Loans to financial institutions	11,329,622	38,156	448,515	11,816,293
Loans to other customers	9,355,592	145,384	1,094,125	10,595,101
Assets available for sale	3,492,247			3,492,247
Other assets	1,549	58	429	2,036
Total	**24,952,818**	**183,598**	**1,543,069**	**26,679,485**
Guarantees and commitments				
Guarantees issued in HRK	12,588	-	-	12,588
Issued guarantees in foreign currency	1,654,733	-	48,610	1,703,343
Undrawn loans	4,286,677	-	9,443	4,296,120
EIF – subscribed, not called up capital	48,050	-	-	48,050
Other irrevocable contingent liabilities	335	-	-	335
Total	**6,002,383**	**-**	**58,053**	**6,060,436**
Total credit risk exposure	**30,955,201**	**183,598**	**1,601,122**	**32,739,921**

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

16. Risk management (continued)

16.2. Credit risk (continued)

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

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

Group Sep 30, 2016	Up to 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Assets						
Loans to financial institutions	14,985	6	7,000	20	16,145	38,156
Loans to other customers	64,819	8,785	3,890	1,341	66,549	145,384
Other assets	26	62	133	75	24	320
Total	**79,830**	**8,853**	**11,023**	**1,436**	**82,718**	**183,860**

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

16. Risk management (continued)

16.2. Credit risk (continued)

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

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

Bank Sep 30, 2016	Up to 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Assets						
Loans to financial institutions	14,985	6	7,000	20	16,145	38,156
Loans to other customers	64,819	8,785	3,890	1,341	66,549	145,384
Other assets	3	7	4	20	24	58
Total	**79,807**	**8,798**	**10,894**	**1,381**	**82,718**	**183,598**

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

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

From total due and not impaired loans to financial institutions in the reporting period, an amount of HRK 32,190 thousand, i.e. 84%, relates to not executed extensions of short-term revolving loans.

If the total amount of due and not impaired loans to financial institutions is reduced by the debt of banks under short-term revolving loans, the remaining debt equals HRK 5,966 thousand.

From total due and not impaired loans to other customers in the reporting period, an amount of HRK 64,819 thousand, i.e. 45%, relates to delays of up to 15 days, of which the amount of HRK 8,131 thousand, i.e. 13%, was guaranteed by the Republic of Croatia.

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

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

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

16. Risk management (continued)

16.3. Liquidity risk

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

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

16. Risk management (continued)

16.3. Liquidity risk (continued)

The table below provides an analysis of total assets and total liabilities and equity as of 30 September 2016 and 31 December 2015 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

Group Sep 30, 2016	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash on hand and due from banks	621,044	-	-	-	-	621,044
Deposits with other banks	-	153,218	-	-	-	153,218
Loans to financial institutions*	632,973	403,588	1,859,304	3,135,154	5,785,274	11,816,293
Loans to other customers	1,449,993	277,256	802,467	1,631,996	6,433,389	10,595,101
Financial assets at fair value through profit or loss	5,610	-	-	-	-	5,610
Assets available for sale	3,522,727	10,919	238	-	-	3,533,884
Assets held to maturity	-	17	2	-	1,402	1,421
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	57,366	57,366
Non-current assets held for sale	-	-	939	13,675	7,205	21,819
Other assets	3,171	1,236	442	67	291	5,207
Total assets (1)	**6,235,518**	**846,234**	**2,663,392**	**4,780,892**	**12,284,927**	**26,810,963**
Liabilities						
Deposits	104,780	68	10,711	64,970	12,068	192,597
Borrowings	184,230	1,075,900	868,262	2,858,578	7,989,466	12,976,436
Bonds payable	-	54,611	1,875,995	-	1,112,519	3,043,125
Other liabilities	149,425	35,788	108,939	208,347	241,353	743,852
Total liabilities	**438,435**	**1,166,367**	**2,863,907**	**3,131,895**	**9,355,406**	**16,956,010**
Equity						
Founder's capital	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	2,682,127	2,682,127
Other reserves	-	-	-	-	74,123	74,123
Net profit for the year	-	-	-	-	159,778	159,778
Total equity attributable to equity holders of the parent	-	-	-	-	**9,842,660**	**9,842,660**
Guarantee fund	-	-	-	-	12,293	12,293
Total equity	-	-	-	-	**9,854,953**	**9,854,953**
Total liabilities and total equity (2)	**438,435**	**1,166,367**	**2,863,907**	**3,131,895**	**19,210,359**	**26,810,963**
Net assets/liabilities (1) – (2)	**5,797,083**	**(320,133)**	**(200,515)**	**1,648,997**	**(6,925,432)**	**-**
Net cumulative assets/liabilities	**5,797,083**	**5,476,950**	**5,276,435**	**6,925,432**	**-**	**-**

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

** Receivables of HRK 340,631 thousand relate to reverse REPO agreements.*

16. Risk management (continued)

16.3. Liquidity risk (continued)

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

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

** Receivables of HRK 606,930 thousand relate to reverse REPO agreements. The maturity of part of receivables was prolonged after the Statement of Financial Position date, and an amount of HRK 9,400 thousand was placed in the 1 up to 3 months maturity category.*

16. Risk management (continued)

16.3. Liquidity risk (continued)

The table below provides an analysis of total assets and total liabilities and equity as of 30 September 2016 and 31 December 2015 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

Bank Sep 30, 2016	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash on hand and due from banks	620,596	-	-	-	-	620,596
Deposits with other banks	-	153,218	-	-	-	153,218
Loans to financial institutions*	632,973	403,588	1,859,304	3,135,154	5,785,274	11,816,293
Loans to other customers	1,449,993	277,256	802,467	1,631,996	6,433,389	10,595,101
Assets available for sale	3,481,546	10,701	-	-	-	3,492,247
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	57,261	57,261
Non-current assets held for sale	-	-	939	13,675	7,205	21,819
Other assets	2,271	799	434	67	-	3,570
Total assets (1)	**6,187,379**	**845,562**	**2,663,143**	**4,780,892**	**12,319,253**	**26,796,229**
Liabilities						
Deposits	104,780	68	10,711	64,970	12,068	192,597
Borrowings	184,230	1,075,900	868,262	2,858,578	7,989,466	12,976,436
Bonds payable	-	54,611	1,875,995	-	1,112,519	3,043,125
Other liabilities	148,934	34,441	105,314	201,327	243,103	733,119
Total liabilities	**437,944**	**1,165,020**	**2,860,282**	**3,124,875**	**9,357,156**	**16,945,277**
Equity						
Founder's capital	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	2,682,131	2,682,131
Other reserves	-	-	-	-	70,975	70,975
Net profit for the year	-	-	-	-	158,921	158,921
Capital	**-**	**-**	**-**	**-**	**9,838,659**	**9,838,659**
Guarantee fund	-	-	-	-	12,293	12,293
Total equity	**-**	**-**	**-**	**-**	**9,850,952**	**9,850,952**
Total liabilities and total equity (2)	**437,944**	**1,165,020**	**2,860,282**	**3,124,875**	**19,208,108**	**26,796,229**
Net assets/liabilities (1) – (2)	**5,749,435**	**(319,458)**	**(197,139)**	**1,656,017**	**(6,888,855)**	**-**
Net cumulative assets/liabilities	**5,749,435**	**5,429,977**	**5,232,838**	**6,888,855**	**-**	**-**

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

** Receivables of HRK 340,631 thousand relate to reverse REPO agreements.*

16. Risk management (continued)

16.3. Liquidity risk (continued)

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

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

** Receivables of HRK 606,930 thousand relate to reverse REPO agreements. The maturity of part of receivables was prolonged after the Statement of Financial Position date, and an amount of HRK 9,400 thousand was placed in the 1 up to 3 months maturity category.*

16. Risk management (continued)

16.3. Liquidity risk (continued)

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

Group Sep 30, 2016	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
Financial liabilities						
Deposits	104,780	68	10,711	64,970	12,068	192,597
Borrowings	199,470	1,056,765	1,089,630	3,449,530	9,179,549	14,974,944
Bonds payable	-	-	2,037,412	135,140	1,180,088	3,352,640
Other liabilities	149,425	35,788	108,939	208,347	241,353	743,852
Total	**453,675**	**1,092,621**	**3,246,692**	**3,857,987**	**10,613,058**	**19,264,033**

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

16. Risk management (continued)

16.3. Liquidity risk (continued)

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

Bank Sep 30, 2016	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
Financial liabilities						
Deposits	104,780	68	10,711	64,970	12,068	192,597
Borrowings	199,470	1,056,765	1,089,630	3,449,530	9,179,549	14,974,944
Bonds payable	-	-	2,037,412	135,140	1,180,088	3,352,640
Other liabilities	148,934	34,441	105,314	201,327	243,103	733,119
Total	**453,184**	**1,091,274**	**3,243,067**	**3,850,967**	**10,614,808**	**19,253,300**

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

16. Risk management (continued)

16.4. Market risk

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

16.4.1. Interest rate risk in the Bank's book

The basic principles for managing the Bank's interest rate risk are determined in the internal documents as well as in the decisions and conclusions made by the Managing Board and the Asset and Liability Management Committee. For the purpose of measurement and monitoring of interest rate risk, the Bank carries out interest rate gap analysis. Interest rate gap is calculated for certain periods according to the possibilities of interest rate changes and presents the sensitivity of the Bank to the changes in interest rates. Interest rates are structured per currency, type and value, and projections of average weighted interest rates for Bank's funds and placements are made. Depending on the results of calculations, i.e. on the previous reports, decisions are made on the types of interest rates for future borrowings and placements in order to reduce the gap to the lowest level possible. Furthermore, in addition to harmonising interest rates on sources and placements, current market conditions and movements in forecasted market indicators are also monitored.

16. Risk management (continued)

16.4. Market risk (continued)

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

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

Group Sep 30, 2016	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non-interest bearing	Total
Assets							
Cash on hand and due from banks	448	-	-	-	-	620,596	621,044
Deposits with other banks	-	153,169	-	-	-	49	153,218
Loans to financial institutions	619,407	805,022	1,962,646	2,930,793	5,485,978	12,447	11,816,293
Loans to other customers	1,525,373	847,433	786,831	1,340,721	6,039,816	54,927	10,595,101
Financial assets at fair value through profit or loss	-	-	-	-	-	5,610	5,610
Assets available for sale	2,583,433	-	-	-	-	950,451	3,533,884
Assets held to maturity	-	-	-	-	1,402	19	1,421
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	57,366	57,366
Non-current assets held for sale	-	-	-	-	-	21,819	21,819
Other assets	-	-	-	-	-	5,207	5,207
Total assets (1)	**4,728,661**	**1,805,624**	**2,749,477**	**4,271,514**	**11,527,196**	**1,728,491**	**26,810,963**

16. Risk management (continued)

16.4. Market risk (continued)

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

Group Sep 30, 2016	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non-interest bearing	Total
Liabilities							
Deposits	23,437	-	-	-	-	169,160	192,597
Borrowings	184,001	1,012,383	869,201	2,857,639	7,989,466	63,746	12,976,436
Bonds payable	-	-	1,875,995	-	1,112,519	54,611	3,043,125
Other liabilities	-	-	-	-	-	743,852	743,852
Total liabilities	**207,438**	**1,012,383**	**2,745,196**	**2,857,639**	**9,101,985**	**1,031,369**	**16,956,010**
Equity							
Founder's capital	-	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	-	2,682,127	2,682,127
Other reserves	-	-	-	-	-	74,123	74,123
Net profit for the year	-	-	-	-	-	159,778	159,778
Total equity attributable to equity holders of the parent	**-**	**-**	**-**	**-**	**-**	**9,842,660**	**9,842,660**
Guarantee fund	-	-	-	-	-	12,293	12,293
Total equity	**-**	**-**	**-**	**-**	**-**	**9,854,953**	**9,854,953**
Total liabilities and total equity (2)	**207,438**	**1,012,383**	**2,745,196**	**2,857,639**	**9,101,985**	**10,886,322**	**26,810,963**
Net assets/liabilities (1) – (2)	**4,521,223**	**793,241**	**4,281**	**1,413,875**	**2,425,211**	**(9,157,831)**	**-**

16. Risk management (continued)

16.4. Market risk (continued)

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

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

16. Risk management (continued)

16.4. Market risk (continued)

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

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

Bank Sep 30, 2016	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non-interest bearing	Total
Assets							
Cash on hand and due from banks	-	-	-	-	-	620,596	620,596
Deposits with other banks	-	153,169	-	-	-	49	153,218
Loans to financial institutions	619,407	805,022	1,962,646	2,930,793	5,485,978	12,447	11,816,293
Loans to other customers	1,525,373	847,433	786,831	1,340,721	6,039,816	54,927	10,595,101
Assets available for sale	2,542,543	-	-	-	-	949,704	3,492,247
Investments in subsidiaries	-	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	57,261	57,261
Non-current assets held for sale	-	-	-	-	-	21,819	21,819
Other assets	-	-	-	-	-	3,570	3,570
Total assets (1)	**4,687,323**	**1,805,624**	**2,749,477**	**4,271,514**	**11,525,794**	**1,756,497**	**26,796,229**

16. Risk management (continued)

16.4. Market risk (continued)

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

Bank Sep 30, 2016	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non-interest bearing	Total
Liabilities							
Deposits	23,437	-	-	-	-	169,160	192,597
Borrowings	184,001	1,012,383	869,201	2,857,639	7,989,466	63,746	12,976,436
Bonds payable	-	-	1,875,995	-	1,112,519	54,611	3,043,125
Other liabilities	-	-	-	-	-	733,119	733,119
Total liabilities	**207,438**	**1,012,383**	**2,745,196**	**2,857,639**	**9,101,985**	**1,020,636**	**16,945,277**
Equity							
Founder's capital	-	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	-	2,682,131	2,682,131
Other reserves	-	-	-	-	-	70,975	70,975
Net profit for the year	-	-	-	-	-	158,921	158,921
Capital	**-**	**-**	**-**	**-**	**-**	**9,838,659**	**9,838,659**
Guarantee fund	-	-	-	-	-	12,293	12,293
Total equity	**-**	**-**	**-**	**-**	**-**	**9,850,952**	**9,850,952**
Total liabilities and total equity (2)	**207,438**	**1,012,383**	**2,745,196**	**2,857,639**	**9,101,985**	**10,871,588**	**26,796,229**
Net assets/liabilities (1) – (2)	**4,479,885**	**793,241**	**4,281**	**1,413,875**	**2,423,809**	**(9,115,091)**	**-**

16. Risk management (continued)

16.4. Market risk (continued)

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

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

16. Risk management (continued)

16.4. Market risk (continued)

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

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

	Group		Bank	
	Sep 30, 2016	**Dec 31, 2015**	**Sep 30, 2016**	**Dec 31, 2015**
Assets				
Fixed interest rate assets	23,264,129	22,176,481	23,221,388	22,134,621
Variable interest rate assets	1,818,344	1,970,568	1,818,344	1,970,568
Non-interest bearing	1,728,490	1,405,723	1,756,497	1,435,587
Total assets	**26,810,963**	**25,552,772**	**26,796,229**	**25,540,776**
Liabilities				
Fixed interest rate liabilities	15,920,886	14,667,593	15,920,886	14,667,593
Variable interest rate liabilities	3,754	7,635	3,754	7,635
Non-interest bearing	10,886,323	10,877,544	10,871,589	10,865,548
Total liabilities and total equity	**26,810,963**	**25,552,772**	**26,796,229**	**25,540,776**

16. Risk management (continued)

16.4. Market risk (continued)

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

Sensitivity analysis

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

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

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

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

Currency	Increase in b.p. Sep 30, 2016	Effect on profit Sep 30, 2016	Increase in b.p. in 2015	Effect on profit in 2015
		HRK '000		HRK '000
EUR	+9	1,262	+40	7,237
USD	+12	406	+11	161

Currency	Decrease in b.p. Sep 30, 2016	Effect on profit Sep 30, 2016	Decrease in b.p. in 2015	Effect on profit in 2015
		HRK '000		HRK '000
EUR	-9	(1,262)	-40	(7,237)
USD	-12	(406)	-11	(161)

16. Risk management (continued)

16.4. Market risk (continued)

16.4.2. Currency risk

The basic principles for managing HBOR's currency risk are determined in the internal documents as well as in the decisions and conclusions made by the Managing Board and the Asset and Liability Management Committee. Methods for the measurement, i.e. assessment, monitoring and management of currency risk have been established, limits and proceedings both for cases of crisis indication and occurrence have been determined, and reports necessary for comprehensive perception of this risk have been defined.

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

16. Risk management (continued)

16.4. Market risk (continued)

16.4.2. Currency risk (continued)

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

Group Sep 30, 2016	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
Assets						
Cash on hand and due from banks	13,246	594,810	479	608,535	12,509	621,044
Deposits with other banks	-	148,699	4,519	153,218	-	153,218
Loans to financial institutions	-	6,554,613	-	6,554,613	5,261,680	11,816,293
Loans to other customers	378,268	6,888,695	-	7,266,963	3,328,138	10,595,101
Financial assets at fair value through profit or loss	-	1,468	-	1,468	4,142	5,610
Assets available for sale	14,065	1,051,354	-	1,065,419	2,468,465	3,533,884
Assets held to maturity	-	1,421	-	1,421	-	1,421
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	57,366	57,366
Non-current assets held for sale	-	-	-	-	21,819	21,819
Other assets	-	394	-	394	4,813	5,207
Total assets (1)	**405,579**	**15,241,454**	**4,998**	**15,652,031**	**11,158,932***	**26,810,963**
Liabilities						
Deposits	50,831	88,568	4,272	143,671	48,926	192,597
Borrowings	174,401	12,055,094	-	12,229,495	746,941	12,976,436
Bonds payable	-	3,043,125	-	3,043,125	-	3,043,125
Other liabilities	173	10,311	10,346	20,830	732,022	743,852
Total liabilities	**225,405**	**15,197,098**	**14,618**	**15,437,121**	**1,518,889**	**16,956,010**
Equity						
Founder's capital	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	2,682,127	2,682,127
Other reserves	-	-	-	-	74,123	74,123
Net profit for the year	-	-	-	-	159,778	159,778
Total equity attributable to equity holders of the parent	**-**	**-**	**-**	**-**	**9,842,660**	**9,842,660**
Guarantee fund	-	12,293	-	12,293	-	12,293
Total equity	**-**	**12,293**	**-**	**12,293**	**9,842,660**	**9,854,953**
Total liabilities and total equity (2)	**225,405**	**15,209,391**	**14,618**	**15,449,414**	**11,361,549**	**26,810,963**
Net assets/liabilities (1) – (2)	**180,174**	**32,063**	**(9,620)****	**202,617**	**(202,617)**	**-**

**Amounts linked to a one-way currency clause represent HRK 272,975 thousand.*

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

16. Risk management (continued)

16.4. Market risk (continued)

16.4.2. Currency risk (continued)

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

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

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

16. Risk management (continued)

16.4. Market risk (continued)

16.4.2. Currency risk (continued)

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

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
Sep 30, 2016						
Assets						
Cash on hand and due from banks	13,246	594,810	479	608,535	12,061	620,596
Deposits with other banks	-	148,699	4,519	153,218	-	153,218
Loans to financial institutions	-	6,554,613	-	6,554,613	5,261,680	11,816,293
Loans to other customers	378,268	6,888,695	-	7,266,963	3,328,138	10,595,101
Assets available for sale	14,065	1,042,948	-	1,057,013	2,435,234	3,492,247
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	57,261	57,261
Non-current assets held for sale	-	-	-	-	21,819	21,819
Other assets	-	-	-	-	3,570	3,570
Total assets (1)	**405,579**	**15,229,765**	**4,998**	**15,640,342**	**11,155,887***	**26,796,229**
Liabilities						
Deposits	50,831	88,568	4,272	143,671	48,926	192,597
Borrowings	174,401	12,055,094	-	12,229,495	746,941	12,976,436
Bonds payable	-	3,043,125	-	3,043,125	-	3,043,125
Other liabilities	-	3,374	10,300	13,674	719,445	733,119
Total liabilities	**225,232**	**15,190,161**	**14,572**	**15,429,965**	**1,515,312**	**16,945,277**
Equity						
Founder's capital	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	2,682,131	2,682,131
Other reserves	-	-	-	-	70,975	70,975
Net profit for the year	-	-	-	-	158,921	158,921
Capital	**-**	**-**	**-**	**-**	**9,838,569**	**9,838,659**
Guarantee fund	-	12,293	-	12,293	-	12,293
Total equity	**-**	**12,293**	**-**	**12,293**	**9,838,659**	**9,850,952**
Total liabilities and total equity (2)	**225,232**	**15,202,454**	**14,572**	**15,442,258**	**11,353,971**	**26,796,229**
Net assets/liabilities (1) – (2)	**180,347**	**27,311**	**(9,574)****	**198,084**	**(198,084)**	**-**

** Amounts linked to a one-way currency clause represent HRK 272,975 thousand.*

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

16. Risk management (continued)

16.4. Market risk (continued)

16.4.2. Currency risk (continued)

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

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

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

16. Risk management (continued)

16.4. Market risk (continued)

16.4.2. Currency risk (continued)

Sensitivity analysis

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

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

Volatility of the exchange rate EUR/HRK, determined using the standard deviation method on the changes of the foreign exchange rate EUR/HRK, equalled 1.62% in the previous 12 months.

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

	Change in currency rate Sep 30, 2016 %	Effect on profit Sep 30, 2016 HRK' 000	Change in currency rate Sep 30, 2015 %	Effect on profit Sep 30, 2015 HRK' 000
EUR	+1.62%	12,314	+1.75%	578
EUR	-1.62%	(9,242)	-1.75%	(495)

16.5. Operational risk

The Bank has established a framework for operational risk management that is, to a considerable extent, aligned with regulations prescribed by the Croatian National Bank applicable to the Bank's business and good banking practices in the area of risk management that was introduced in 2012.

The basic principles of operational risk management were identified in the umbrella act, the Operational Risk Management Policy, the structure of management and accountability in the system was set up, the approach for the calculation of capital requirements for operational risk was determined and the recording and reporting system was established.

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

16. Risk management (continued)

16.6. Outsourcing risk

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

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

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

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

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

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

At initial recognition, when an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price).
The fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price).

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

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

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

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

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

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

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

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

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

The fair value of bonds issued by HBOR on 30 September 2016 is stated in Note 13 and is presented by using level 2 inputs that are observable at Bloomberg service on the basis of mid-rate of Bloomberg Generic (BGN) prices.

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

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

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

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

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	Sep 30, 2016			Dec 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss:						
Shares in investment funds recognised at fair value through profit or loss	5,610	-	-	3,707	-	-
Total financial assets at fair value through profit or loss	**5,610**	**-**	**-**	**3,707**	**-**	**-**
Assets available for sale:						
Debt instruments:						
Listed debt instruments:						
Bonds of the Ministry of Finance of the Republic of Croatia	923,540	-	-	679,617	-	-
Financial institution bonds	911	-	-	930	-	-
Corporate bonds	1,158	-	-	396	-	-
Treasury bills of the Ministry of Finance of the Republic of Croatia	1,657,325	-	-	-	1,418,963	-
Accrued interest	11,087	-	-	14,441	-	-
Unlisted debt instruments:						
Corporate bonds	-	-	499	-	-	-
Accrued interest	-	-	81	-	-	-
Total debt instruments	**2,594,021**	**-**	**580**	**695,384**	**1,418,963**	**-**
Equity instruments:						
Listed equity instruments:						
Corporate shares	8,887	-	-	-	-	-
Unlisted equity instruments:						
Investment in shares of foreign companies	-	32	-	-	26	-
Investment in financial institutions shares	-	161	-	-	161	-
Shares of foreign financial institutions – EIF	-	25,644	-	-	24,420	-
Corporate shares	-	-	-	-	-	-
Total equity instruments	**8,887**	**25,837**	**-**	**-**	**24,607**	**-**
Investments in investment funds:						
Shares classified as assets available for sale	904,559	-	-	729,010	-	-
Total investments in investment funds	**904,559**	**-**	**-**	**729,010**	**-**	**-**
Total assets available for sale	**3,507,467**	**25,837**	**580**	**1,424,394**	**1,443,570**	**-**

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

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

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

In the reporting period, Equity Instruments: Corporate Shares were classified within Level 1 of the fair value hierarchy, and quoted market price was used as the valuation technique.

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

Bank	Sep 30, 2016			Dec 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets available for sale:						
Debt instruments:						
Listed debt instruments:						
Bonds of the Ministry of Finance of the Republic of Croatia	884,719	-	-	644,532	-	-
Treasury bills of the Ministry of finance of the Republic of Croatia	1,657,325	-	-	-	1,418,963	-
Accrued interest	10,620	-	-	13,862	-	-
Unlisted debt instruments:						
Corporate bonds	-	-	499	-	-	-
Accrued interest	-	-	81	-	-	-
Total debt instruments	**2,552,664**	**-**	**580**	**658,394**	**1,418,963**	**-**
Equity instruments:						
Listed equity instruments:						
Corporate shares	8,887	-	-	-	-	-
Unlisted equity instruments:						
Investment in shares of foreign companies	-	32	-	-	26	-
Investment in financial institutions shares	-	161	-	-	161	-
Shares of foreign financial institutions – EIF	-	25,644	-	-	24,420	-
Corporate shares	-	-	-	-	-	-
Total equity instruments	**8,887**	**25,837**	**-**	**-**	**24,607**	**-**
Investments in investment funds:						
Shares classified as assets available for sale	904,279	-	-	728,778	-	-
Total investments in investment funds	**904,279**	**-**	**-**	**728,778**	**-**	**-**
Total assets available for sale	**3,465,830**	**25,837**	**580**	**1,387,172**	**1,443,570**	**-**

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

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

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

In the reporting period, Equity Instruments: Corporate Shares were classified within Level 1 of the fair value hierarchy, and quoted market price was used as the valuation technique.

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

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

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

18. Reporting by segments

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

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

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

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

Business segments:

The Group has following business segments:

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

18. Reporting by segments (continued)

Sep 30, 2016	Banking activities	Insurance activities	Other activities	Unallocated	Total
Net interest income	302,808	1,242	-	-	304,050
Net fee income	18,857	954	730	-	20,541
Net income/(expenses) from financial operations	(11,128)	87	4	-	(11,037)
Net premiums earned	-	4,976	-	-	4,976
Other income	5,275	43	212	(223)	5,307
Income from operating activities	**315,812**	**7,302**	**946**	**(223)**	**323,837**
Operating costs	(112,011)	(3,925)	(795)	224	(116,507)
Impairment loss and provisions	(44,880)	63	10	-	(44,807)
Expenses for insured cases	-	(1,591)	-	-	(1,591)
Net change in provisions	-	(755)	-	-	(755)
Other expenses	-	(399)	-	-	(399)
Operating expenses	**(156,891)**	**(6,607)**	**(785)**	**224**	**(164,059)**
Profit/(loss) before income tax	158,921	695	161	1	159,778
Income tax	-	-	-	-	-
Profit/(loss) for the year	**158,921**	**695**	**161**	**1**	**159,778**
Assets of segment	26,796,229	50,638	751	(36,655)	26,810,963
Total assets	**26,796,229**	**50,638**	**751**	**(36,655)**	**26,810,963**
Liabilities of segment	16,945,277	10,679	82	(28)	16,956,010
Total equity	9,850,952	2,459	369	1,173	9,854,953
Total liabilities and total equity	**26,796,229**	**13,138**	**451**	**1,145**	**26,810,963**

Intra-group transactions are presented under "Unallocated".

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

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

18. Reporting by segments (continued)

Sep 30, 2015	Banking activities	Insurance activities	Other activities	Unallocated	Total
Net interest income	289,207	1,010	-	-	290,217
Net fee income	10,742	1,027	649	-	12,418
Net income/(expenses) from financial operations	16,172	319	33	-	16,524
Net premiums earned	-	4,379	-	-	4,379
Other income	2,735	54	214	(227)	2,776
Income from operating activities	**318,856**	**6,789**	**896**	**(227)**	**326,314**
Operating costs	(96,804)	(3,643)	(897)	228	(101,116)
Impairment loss and provisions	(113,292)	20	17	-	(113,255)
Expenses for insured cases	-	(939)	-	-	(939)
Net change in provisions	-	(1,184)	-	-	(1,184)
Other expenses	-	(97)	-	-	(97)
Operating expenses	**(210,096)**	**(5,843)**	**(880)**	**228**	**(216,591)**
Profit/(loss) before income tax	**108,760**	**946**	**16**	**1**	**109,723**
Income tax	-	-	-	-	-
Profit/(loss) for the year	**108,760**	**946**	**16**	**1**	**109,723**
Dec 31, 2015					
Assets of segment	25,540,776	48,043	612	(36,659)	25,552,772
Total assets	**25,540,776**	**48,043**	**612**	**(36,659)**	**25,552,772**
Liabilities of segment	15,878,329	9,828	103	(32)	15,888,228
Total equity	9,662,447	716	209	1,172	9,664,544
Total liabilities and total equity	**25,540,776**	**10,544**	**312**	**1,140**	**25,552,772**

Intra-group transactions are presented under "Unallocated".

19. Capital management

The primary objectives of the Bank's capital management are to ensure the presumptions of going concern and to respect regulatory and contracted demands imposed by creditors regarding a certain capital adequacy level.

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

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

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

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

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

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

	Group		Bank	
	Sep 30, 2016	**Dec 31, 2015**	**Sep 30, 2016**	**Dec 31, 2015**
Original own funds – Tier 1	9,768,541	9,609,800	9,767,684	9,608,763
Additional own funds – Tier 2	327,730	302,203	327,730	302,203
Total own funds	**10,096,271**	**9,912,003**	**10,095,414**	**9,910,966**
Risk weighted assets	14,726,018	12,798,794	14,757,415	12,830,126
Capital requirements for currency risk	1,031,620	696,133	1,019,932	681,095
Total capital requirements	**15,757,638**	**13,494,927**	**15,777,347**	**13,511,221**
	%	%	%	%
Capital ratio (Tier 1)	**61.99**	**71.21**	**61.91**	**71.12**
Capital adequacy ratio	**64.07**	**73.45**	**63.99**	**73.35**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Own funds needed for ensuring capital adequacy according to regulatory requirements	**1,260,611**	**1,079,594**	**1,262,188**	**1,080,898**

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

19. Capital management (continued)

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

The Managing Board of the Group does not expect any adverse effects on the level of capital adequacy as a result of application of the new regulations for credit institutions, taking into account that the Bank's capital adequacy ratio as of 30 September 2016 was 8 times higher than the prescribed one. This was primarily due to the model of operation and its orientation to the lending operations.

20. Events after the reporting period date

20.1. Litigation

Towards the end of the reporting period, a lawsuit was filed against the Bank, and duration of the litigation, potential outflows and required provisioning level as a result of the litigation are currently being assessed.

Appendix - financial performance of the HKO Group
Statement of Profit or Loss and Other Comprehensive Income
for the period 1 January – 30 September (unaudited)

(All amounts are expressed in HRK thousand)

	Sep 30, 2016	Sep 30, 2015
Premium earned		
Gross premium written	8,980	8,930
Premium impairment allowance originated and reserved on collection	-	20
Gross outward reinsurance premium	(3,792)	(4,251)
Net premium written	**5,188**	**4,699**
Changes in the gross unearned premium reserve	98	(320)
Changes in the gross unearned premium reserve, reinsurer's share	(310)	20
Net premium earned	**4,976**	**4,399**
Fee and commission income	1,684	1,676
Net investment income	1,326	1,370
Other operating income	32	41
Net income	**8,018**	**7,486**
Gross expense for returned premiums	(892)	(198)
Reinsurer's share	493	101
Gross reserve for returned premiums	(122)	(508)
Reinsurer's share	19	258
Net expense and reserve for returned premiums	**(502)**	**(347)**
Claims incurred	(1,712)	(1,791)
Claims incurred, reinsurer's share	121	852
Change in the claims provision	(1,664)	(624)
Change in the claims provision, reinsurer's share	1,012	(310)
Net claims incurred	**(2,243)**	**(1,873)**
Marketing and provision expenses	(557)	(527)
Administrative expenses	(3,829)	(3,648)
Other operating expenses	(37)	(120)
Net exchange differences other than those on financial instruments	6	(9)
Profit before income tax	**856**	**962**
Income tax	-	-
Profit/(loss) for the year	**856**	**962**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Gains on revaluation of financial assets available for sale	1,832	1,152
Decrease in the fair value of financial assets available for sale	(322)	(787)
Transfer of realized gains on asset available for sale to statement of profit or loss	(201)	(385)
Deferred tax	(262)	(4)
Total items that may be reclassified subsequently to profit or loss:	**1,047**	**(24)**
Other comprehensive income after income tax	**1,047**	**(24)**
Total comprehensive income after income tax	**1,903**	**938**
Attributable to:		
Equity holders of the parent	1,903	938

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

	Sep 30, 2016	Dec 31, 2015
Assets		
Non-current assets		
Property and equipment	99	148
Intangible assets	9	9
Held to maturity investments	1,421	1,451
Deferred tax	291	230
Total non-current assets	**1,820**	**1,838**
Current assets		
Investments available for sale	41,637	37,993
Investments at fair value through profit or loss	5,609	3,707
Deposits with banks	-	3,047
Receivables from insurance operations	1,092	1,133
Other receivables	255	164
Cash and cash equivalents	448	242
Total current assets	**49,041**	**46,286**
Total assets	**50,861**	**48,124**
Equity and liabilities		
Equity		
Share capital	37,500	37,500
Accumulated losses	(148)	(1,184)
Other reserves	1,921	874
Profit for the year	856	1,036
Total equity	**40,129**	**38,226**
Technical provisions		
Gross technical provisions	16,516	14,827
Technical provisions, reinsurer's share	(8,876)	(8,156)
	7,640	**6,671**
Current liabilities		
Liabilities from insurance operations	1,320	1,603
Other liabilities	1,772	1,624
Total liabilities	**3,092**	**3,227**
Total equity and liabilities	**50,861**	**48,124**

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

	Sep 30, 2016	Sep 30, 2015
Operating activities		
Profit before income tax	856	962
Adjustments to reconcile to net cash from and used in operating activities:		
Depreciation	53	140
Impairment loss and provisions	(73)	(37)
Income tax	-	-
Accrued interest	156	47
Operating profit before working capital changes	992	*1,112*
Changes in operating assets and liabilities:		
Net decrease in deposits with other banks	3,000	13,920
Net realized (gain) on assets available for sale	(201)	(385)
Decrease of discount in assets available for sale and assets held to maturity	303	149
Net gain/(losses) on financial assets at fair value through profit or loss	(128)	(37)
Premium receivables	41	259
Net decrease/(increase) in other assets	(414)	(68)
Net decrease of assets and liabilities from insurance operations	(283)	(127)
Net increase in technical provisions	968	1,484
Net (decrease) in other liabilities	222	71
Net cash provided by operating activities	**4,500**	**16,378**
Investment activities		
Net (purchase) of financial assets at fair value through profit or loss	(7,640)	(21,582)
Net sale of financial assets at fair value through profit or loss	5,813	18,270
Net (purchase) of assets available for sale	(4,835)	(19,876)
Net sale of assets available for sale	2,125	7,102
(Purchase) of assets held to maturity	-	-
Collection of assets held to maturity when due	-	-
Net (purchase) of property, plant and equipment and intangible assets	(4)	(47)
Net cash (used in) investment activities	**(4,541)**	**(16,133)**
Effect of foreign currency to cash and cash equivalents		
Net foreign exchange	247	73
Net effect	**247**	**73**
Net increase in cash and cash equivalents	206	318
Balance as of 1 January	242	133
Net increase in cash	206	318
Balance as of 30 September	**448**	**451**

Appendix - financial performance of the HKO Group
Statement of Changes in Equity
for the period 1 January – 30 September (unaudited)

(All amounts are expressed in HRK thousand)

	Share capital	Accumulated losses	Other reserves	Profit/(loss) for the year	Total equity attributable to the equity holders of the Company	Total equity
Balance as of 1 January 2015	**37,500**	**(2,068)**	**706**	**884**	**37,022**	**37,022**
Profit for the year	-	-	-	962	**962**	**962**
Other comprehensive income	-	-	(24)	-	**(24)**	**(24)**
Total comprehensive income	-	-	(24)	962	**938**	**938**
Transfer of profit 2014 to retained earnings	-	884	-	(884)	-	-
Balance as of 30 September 2015	**37,500**	**(1,184)**	**682**	**962**	**37,960**	**37,960**
Balance as of 1 January 2016	**37,500**	**(1,184)**	**874**	**1,036**	**38,226**	**38,226**
Profit for the year	-	-	-	856	856	856
Other comprehensive income	-	-	1,047	-	1,047	428
Total comprehensive income	-	-	1,047	856	1,903	1,903
Transfer of profit 2015 to retained earnings	-	1,036	-	(1,036)	-	-
Balance as of 30 September 2016	**37,500**	**(148)**	**1,921**	**856**	**40,129**	**40,129**