

**CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT**

**Consolidated Interim Condensed Financial Statements for the  
Period 1 January – 30 June 2015**

Zagreb, October 2015

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Statement of Persons Responsible for Consolidated Interim Condensed Financial Statements  
for the period 1 January – 30 June 2015

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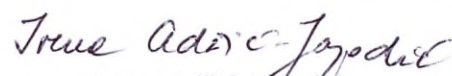
We confirm that, to the best of our knowledge, the Consolidated Interim Condensed Financial Statements of the Croatian Bank for Reconstruction and Development Group as presented on pages 6 to 96 have been prepared in accordance with International Accounting Standard 34: “Interim Financial Reporting” 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.

President of the Managing Board



Dušan Tomašević

Accounting Division Executive Director



Irena Adžić-Jagodić

Zagreb, 31 July 2015

## Independent auditor's report

### To the owner of Croatian Bank for Reconstruction and Development:

We have audited the accompanying condensed separate and consolidated financial statements of Croatian Bank for Reconstruction and Development ("the Bank") and the Group, which comprise the statement of financial position as at 30 June 2015, statement of comprehensive income, statement of changes in equity and cash flow statement for the period then ended and a summary of significant accounting policies and other explanatory information (as set out on pages 16 to 96).

### Management Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

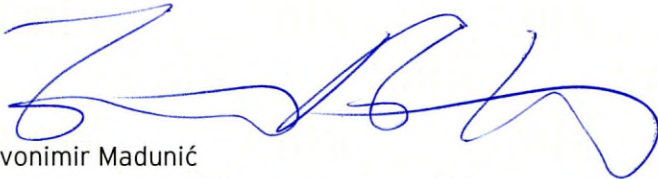
## Independent auditor's report (continued)

### Opinion

In our opinion the condensed separate and consolidated financial statements of the Bank and the Group as at 30 June 2015 and for the period then ended are prepared, in all material respects, in accordance with International Accounting Standard 34: "Interim Financial Reporting".

### Other matter

The condensed separate and consolidated financial statements of the Bank and the Group for the period that ended on 30 June 2014 were audited by another auditor who expressed an unmodified opinion on those statements on 17 October 2014.



Zvonimir Madunić

Member of Management Board and certified auditor

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

Zagreb, 15 October 2015

Consolidated Interim Condensed Financial Statements of the Group  
Statement of Profit or Loss and Other Comprehensive Income  
for the period 1 January – 30 June

(All amounts are expressed in HRK thousand)

	Notes	2015		2014	
		Unaudited		Unaudited	
		Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Interest income	4	211,727	432,727	236,426	465,951
Interest expense	5	(119,890)	(240,513)	(124,224)	(247,747)
<b>Net interest income</b>		<b>91,837</b>	<b>192,214</b>	<b>112,202</b>	<b>218,204</b>
Fee income		5,059	9,201	3,108	5,852
Fee expense		(215)	(313)	(170)	(268)
<b>Net fee income</b>		<b>4,844</b>	<b>8,888</b>	<b>2,938</b>	<b>5,584</b>
Net gains/(losses) on financial operations		8,758	8,901	(3,791)	(3,349)
Other income		2,554	5,333	3,166	4,561
		<b>107,993</b>	<b>215,336</b>	<b>114,515</b>	<b>225,000</b>
Operating expenses	6	(33,558)	(67,497)	(39,981)	(91,453)
Impairment loss and provisions	7	(50,370)	(83,349)	(26,931)	(38,798)
<b>Profit before income tax</b>		<b>24,065</b>	<b>64,490</b>	<b>47,603</b>	<b>94,749</b>
Income tax		-	-	-	-
<b>Profit for the year</b>		<b>24,065</b>	<b>64,490</b>	<b>47,603</b>	<b>94,749</b>
<b>Attributable to:</b>					
<b>Equity holders of the parent</b>		<b>24,065</b>	<b>64,490</b>	<b>47,603</b>	<b>94,749</b>

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

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

	2015		2014	
	Unaudited Current period April 1 – June 30	Cumulatively January 1 – June 30	Unaudited Current period April 1 – June 30	Cumulatively January 1 – June 30
<b>Profit for the year</b>	<b>24,065</b>	<b>64,490</b>	<b>47,603</b>	<b>94,749</b>
<b>Other comprehensive income</b>				
<b>Items that are not transferred subsequently to profit or loss:</b>				
Deferred tax – adjustment for previous period	-	-	-	(17)
<b>Total items that are not transferred subsequently to profit or loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(17)</b>
<b>Items that may be reclassified subsequently to profit or loss:</b>				
Increase in fair value of assets available for sale	6,389	20,184	13,603	25,027
Decrease in fair value of assets available for sale	(19,827)	(22,916)	(3,975)	(4,619)
Net foreign exchange on available for sale equity instruments	(196)	(248)	(163)	(124)
Transfer of realized gains on assets available for sale to statement of profit or loss	(1,612)	(1,613)	-	(5)
Transfer of realized losses on assets available for sale to statement of profit or loss	-	-	-	1,069
Deferred tax – other comprehensive income	84	5	(51)	(133)
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>(15,162)</b>	<b>(4,588)</b>	<b>9,414</b>	<b>21,215</b>
<b>Other comprehensive income after income tax</b>	<b>(15,162)</b>	<b>(4,588)</b>	<b>9,414</b>	<b>21,198</b>
<b>Total comprehensive income after income tax</b>	<b>8,903</b>	<b>59,902</b>	<b>57,017</b>	<b>115,947</b>
<b>Attributable to:</b>				
<b>Equity holders of the parent</b>	<b>8,903</b>	<b>59,902</b>	<b>57,017</b>	<b>115,947</b>

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

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

	Notes	Jun 30, 2015	Dec 31, 2014
<b>Assets</b>			
Cash on hand and due from banks	8	468,112	128,789
Deposits with other banks		530,780	1,230,588
Loans to financial institutions	9	12,575,579	13,498,201
Loans to other customers	10	8,600,125	8,312,414
Financial assets at fair value through profit or loss		17,483	2,152
Assets available for sale	11	3,204,981	2,504,466
Assets held to maturity		1,448	1,470
Investments in associates		-	-
Property, plant and equipment and intangible assets		63,611	66,817
Non-current assets held for sale		34,265	34,227
Other assets		7,448	6,876
<b>Total assets</b>		<b>25,503,832</b>	<b>25,786,000</b>
<b>Liabilities</b>			
Deposits		183,497	182,896
Borrowings	12	11,468,182	11,604,820
Bonds payable	13	3,501,855	3,609,089
Other liabilities		859,505	958,172
<b>Total liabilities</b>		<b>16,013,039</b>	<b>16,354,977</b>
<b>Equity</b>			
Founder's capital		6,893,739	6,893,739
Retained earnings and reserves		2,475,862	2,306,634
Other reserves		44,289	48,877
Profit for the year		64,490	169,228
<b>Total equity attributable to equity holders of the parent</b>		<b>9,478,380</b>	<b>9,418,478</b>
Guarantee fund		12,413	12,545
<b>Total equity</b>		<b>9,490,793</b>	<b>9,431,023</b>
<b>Total liabilities and total equity</b>		<b>25,503,832</b>	<b>25,786,000</b>

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



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

	Notes	2015	2014
<b>Operating activities</b>			
Profit before income tax		64,490	94,749
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation		4,013	3,861
Income tax		(5)	150
Impairment loss and provisions		83,349	38,798
Accrued interest		(99,171)	(52,384)
Deferred fees		(2,324)	6,354
<i>Operating profit before working capital changes</i>		<i>50,352</i>	<i>91,528</i>
<i>Changes in operating assets and liabilities:</i>			
Net decrease in deposits with other banks, before provision for impairment		707,161	51,764
Net decrease in loans to financial institutions, before provision for impairment		931,124	108,631
Net (increase) in loans to other customers, before provision for impairment		(370,226)	(316,277)
Net (gain) on financial assets at fair value through profit or loss		(19)	(11)
Net realized (gain)/losses on assets available for sale		(1,613)	1,064
(Increase) of discount in assets available for sale, assets held to maturity and bonds payable		(10,222)	(7,857)
Net (increase) in non-current assets held for sale		-	(350)
Net (increase) in other assets, before provision for impairment		(479)	(21,308)
Net increase in deposits from banks and companies		602	12,922
Net (decrease) in other liabilities, before provisions		(88,751)	(104,701)
<b>Net cash provided by/(used in) operating activities</b>		<b>1,217,929</b>	<b>(184,595)</b>
<b>Investment activities</b>			
(Purchase) of financial assets at fair value through profit or loss		(18,072)	(6,170)
Sale of financial assets at fair value through profit or loss		2,742	3,106
Net (purchase) of assets available for sale		(1,527,918)	(1,105,957)
Sale of assets available for sale		830,637	746,566
(Purchase) of assets held to maturity		-	(965)
Collection of assets held to maturity when due		-	1,071
Net (purchase) of property, plant and equipment and intangible assets		(807)	(1,625)
<b>Net cash (used in) investment activities</b>		<b>(713,418)</b>	<b>(363,974)</b>
<b>Financing activities</b>			
Increase in founder's capital		-	300,000
Increase in borrowings – withdrawn funds		353,043	1,156,689
(Decrease) in borrowings – repayments of principal		(369,516)	(2,357,736)
<b>Net cash (used in) financing activities</b>		<b>(16,473)</b>	<b>(901,047)</b>
<b>Effect of foreign currency to cash and cash equivalents</b>			
Net foreign exchange		(144,913)	(114,065)
<b>Net effect</b>		<b>(144,913)</b>	<b>(114,065)</b>
Net increase/(decrease) in cash and cash equivalents		343,125	(1,563,681)
Balance as of 1 January, before provisions		129,462	2,133,683
Net increase/(decrease) in cash		343,125	(1,563,681)
<b>Balance as of 30 June, before provisions</b>	<b>8</b>	<b>472,587</b>	<b>570,002</b>
<b>Additional note - Operational cash flows</b>			
Interest paid		312,235	282,949
Interest received		303,575	329,689

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

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

	Founder's capital	Retained earnings and reserves	Other reserves	Net profit for the year	Total equity
<b>Balance as of 1 January 2014</b>	<b>6,543,739</b>	<b>2,117,372</b>	<b>25,400</b>	<b>189,262</b>	<b>8,875,773</b>
Profit for the year	-	-	-	94,749	94,749
Other comprehensive income	-	-	21,198	-	21,198
Total comprehensive income	-	-	21,198	94,749	115,947
Capital paid-in from the State Budget	300,000	-	-	-	300,000
Transfer of profit 2013 to retained earnings	-	189,262	-	(189,262)	-
<b>Balance as of 30 June 2014</b>	<b>6,843,739</b>	<b>2,306,634</b>	<b>46,598</b>	<b>94,749</b>	<b>9,291,720</b>
<b>Balance as of 1 January 2015</b>	<b>6,893,739</b>	<b>2,306,634</b>	<b>48,877</b>	<b>169,228</b>	<b>9,418,478</b>
Profit for the year	-	-	-	64,490	64,490
Other comprehensive income	-	-	(4,588)	-	(4,588)
Total comprehensive income	-	-	(4,588)	64,490	59,902
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2014 to retained earnings	-	169,228	-	(169,228)	-
<b>Balance as of 30 June 2015</b>	<b>6,893,739</b>	<b>2,475,862</b>	<b>44,289</b>	<b>64,490</b>	<b>9,478,380</b>

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

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

	Notes	2015		2014	
		Unaudited Current period April 1 – June 30	Cumulatively January 1 – June 30	Unaudited Current period April 1 – June 30	Cumulatively January 1 – June 30
Interest income	4	211,402	432,065	236,038	465,195
Interest expense	5	(119,890)	(240,513)	(124,224)	(247,747)
<b>Net interest income</b>		<b>91,512</b>	<b>191,552</b>	<b>111,814</b>	<b>217,448</b>
Fee income		4,468	8,102	2,559	4,848
Fee expense		(215)	(313)	(170)	(268)
<b>Net fee income</b>		<b>4,253</b>	<b>7,789</b>	<b>2,389</b>	<b>4,580</b>
Net gains/(losses) on financial operations		8,765	8,914	(3,668)	(3,256)
Other income		1,073	2,494	1,984	2,367
		<b>105,603</b>	<b>210,749</b>	<b>112,519</b>	<b>221,139</b>
Operating expenses	6	(31,366)	(63,424)	(37,787)	(87,574)
Impairment loss and provisions	7	(50,369)	(83,372)	(26,939)	(38,900)
<b>Profit before income tax</b>		<b>23,868</b>	<b>63,953</b>	<b>47,793</b>	<b>94,665</b>
Income tax		-	-	-	-
<b>Profit for the year</b>		<b>23,868</b>	<b>63,953</b>	<b>47,793</b>	<b>94,665</b>
<b>Attributable to:</b>					
<b>Equity holders of the parent</b>		<b>23,868</b>	<b>63,953</b>	<b>47,793</b>	<b>94,665</b>

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

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

	2015		2014	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
<b>Profit for the year</b>	<b>23,868</b>	<b>63,953</b>	<b>47,793</b>	<b>94,665</b>
<b>Other comprehensive income</b>				
<b>Items that are not transferred subsequently to profit or loss:</b>				
Deferred tax – adjustment for previous period	-	-	-	-
<b>Total items that are not transferred subsequently to profit and loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Items that may be reclassified subsequently to profit or loss:</b>				
Increase in fair value of assets available for sale	6,304	19,680	13,319	24,311
Decrease in fair value of assets available for sale	(19,468)	(22,534)	(3,954)	(4,577)
Net foreign exchange on available for sale equity instruments	(196)	(248)	(163)	(124)
Transfer of realized gains on assets available for sale to statement of profit or loss	(1,467)	(1,467)	-	-
Transfer of realized losses on assets available for sale to statement of profit or loss	-	-	-	1,069
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>(14,827)</b>	<b>(4,569)</b>	<b>9,202</b>	<b>20,679</b>
<b>Other comprehensive income after tax</b>	<b>(14,827)</b>	<b>(4,569)</b>	<b>9,202</b>	<b>20,679</b>
<b>Total comprehensive income after tax</b>	<b>9,041</b>	<b>59,384</b>	<b>56,995</b>	<b>115,344</b>
<b>Attributable to:</b>				
<b>Equity holders of the parent</b>	<b>9,041</b>	<b>59,384</b>	<b>56,995</b>	<b>115,344</b>

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

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

	Notes	Jun 30, 2015	Dec 31, 2014
<b>Assets</b>			
Cash on hand and due from banks	8	467,566	128,656
Deposits with other banks		525,744	1,213,434
Loans to financial institutions	9	12,575,579	13,498,201
Loans to other customers	10	8,600,125	8,312,414
Assets available for sale	11	3,184,810	2,483,134
Investments in subsidiaries		36,124	36,124
Investments in associates		-	-
Property, plant and equipment and intangible assets		63,421	66,533
Non-current assets held for sale		34,265	34,227
Other assets		4,903	4,329
<b>Total assets</b>		<b>25,492,537</b>	<b>25,777,052</b>
<b>Liabilities</b>			
Deposits		183,497	182,896
Borrowings	12	11,468,182	11,604,820
Bonds payable	13	3,501,855	3,609,089
Other liabilities		849,621	950,117
<b>Total liabilities</b>		<b>16,003,155</b>	<b>16,346,922</b>
<b>Equity</b>			
Founder's capital		6,893,739	6,893,739
Retained earnings and reserves		2,476,903	2,308,560
Other reserves		42,374	46,943
Profit for the year		63,953	168,343
<b>Capital</b>		<b>9,476,969</b>	<b>9,417,585</b>
Guarantee fund		12,413	12,545
<b>Total equity</b>		<b>9,489,382</b>	<b>9,430,130</b>
<b>Total liabilities and total equity</b>		<b>25,492,537</b>	<b>25,777,052</b>

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

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

	Notes	2015	2014
<b>Operating activities</b>			
Profit before income tax		63,953	94,665
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation		3,919	3,782
Impairment loss and provisions		83,372	38,900
Accrued interest		(99,342)	(52,837)
Deferred fees		(2,324)	6,354
<i>Operating profit before working capital changes</i>		<i>49,578</i>	<i>90,864</i>
<i>Changes in operating assets and liabilities:</i>			
Net decrease in deposits with other banks, before provision for impairment		695,189	45,262
Net decrease in loans to financial institutions, before provision for impairment		931,124	108,631
Net (increase) in loans to other customers, before provision for impairment		(370,226)	(316,277)
Net realized (gain)/losses on assets available for sale		(1,467)	1,069
(Increase) of discount in assets available for sale and bonds payable		(10,292)	(7,885)
Net (increase) in non-current assets held for sale		-	(350)
Net (increase) in other assets, before provision for impairment		(646)	(21,588)
Net increase in deposits from banks and companies		602	12,922
Net (decrease) in other liabilities, before provisions		(90,449)	(106,131)
<b>Net cash provided by/(used in) operating activities</b>		<b>1,203,413</b>	<b>(193,483)</b>
<b>Investment activities</b>			
Net (purchase) of assets available for sale		(1,526,794)	(1,099,971)
Sale of assets available for sale		828,416	746,491
Net (purchase) of property, plant and equipment and intangible assets		(807)	(1,611)
<b>Net cash (used in) investment activities</b>		<b>(699,185)</b>	<b>(355,091)</b>
<b>Financing activities</b>			
Increase in founder's capital		-	300,000
Increase in borrowings – withdrawn funds		353,043	1,156,689
(Decrease) in borrowings – repayments of principal		(369,516)	(2,357,736)
<b>Net cash (used in) financing activities</b>		<b>(16,473)</b>	<b>(901,047)</b>
<b>Effect of foreign currency to cash and cash equivalents</b>			
Net foreign exchange		(145,043)	(114,179)
<b>Net effect</b>		<b>(145,043)</b>	<b>(114,179)</b>
Net increase/(decrease) in cash and cash equivalents		342,712	(1,563,800)
Balance as of 1 January, before provisions		129,329	2,133,544
Net increase/(decrease) in cash		342,712	(1,563,800)
<b>Balance as of 30 June, before provisions</b>	<b>8</b>	<b>472,041</b>	<b>569,744</b>
<b>Additional note - Operational cash flows</b>			
Interest paid		312,235	282,949
Interest received		302,697	328,397

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

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

	Founder's capital	Retained earnings and reserves	Other reserves	Net profit for the year	Total equity
<b>Balance as of 1 January 2014</b>	<b>6,543,739</b>	<b>2,119,402</b>	<b>23,984</b>	<b>189,158</b>	<b>8,876,283</b>
Profit for the year	-	-	-	94,665	94,665
Other comprehensive income	-	-	20,679	-	20,679
Total comprehensive income	-	-	20,679	94,665	115,344
Capital paid-in from the State Budget	300,000	-	-	-	300,000
Transfer of profit 2013 to retained earnings	-	189,158	-	(189,158)	-
<b>Balance as of 30 June 2014</b>	<b>6,843,739</b>	<b>2,308,560</b>	<b>44,663</b>	<b>94,665</b>	<b>9,291,627</b>
<b>Balance as of 1 January 2015</b>	<b>6,893,739</b>	<b>2,308,560</b>	<b>46,943</b>	<b>168,343</b>	<b>9,417,585</b>
Profit for the year	-	-	-	63,953	63,953
Other comprehensive income	-	-	(4,569)	-	(4,569)
Total comprehensive income	-	-	(4,569)	63,953	59,384
Capital paid-in from the State Budget	-	-	-	-	-
Transfer of profit 2014 to retained earnings	-	168,343	-	(168,343)	-
<b>Balance as of 30 June 2015</b>	<b>6,893,739</b>	<b>2,476,903</b>	<b>42,374</b>	<b>63,953</b>	<b>9,476,969</b>

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

# Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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## 1. General information

### 1.1. Group:

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

The legal address of the Bank is Strossmayerov trg 9, Zagreb, Croatia.

The Group was formed in 2010, the Bank’s subsidiary companies are Hrvatsko kreditno osiguranje d.d. and Poslovni info servis d.o.o. that constitute the Hrvatsko kreditno osiguranje Group (“HKO Group”).

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 June 2015, the Group had 338 employees (30 June 2014: 323 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.

### *Managing Board*

In the reporting period, the Supervisory Board of HBOR, on its meeting held on 20 March 2015, made the decision to revoke Mr Vladimir Kristijan from the position of the President of the Managing Board of HBOR as of 22 March 2015, and the decision to appoint Mr Dušan Tomašević as the President of the Managing Board of HBOR as of 23 March 2015.



Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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**1. General information (continued)**

**1.2. Bank (continued):**

*Managing Board (continued)*

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

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

As of 30 June 2015, there were 323 employees at the Bank (30 June 2014: 309 employees).

**1.2.1. Activities of the Bank:**

The principal activities of the Bank comprise the following:

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

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.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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**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 June 2015 have been prepared in accordance with the International Accounting Standard 34 Interim Financial Reporting.

The Consolidated Interim Condensed Financial Standards for the period 1 January to 30 June 2015 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 2014.

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

The Financial Statements of the HBOR Group and HBOR are comprised of consolidated and unconsolidated Statement of Financial Position as of 30 June 2015, the Statement of Profit or Loss for the period 1 January – 30 June 2015, the Statement of Profit or Loss and other Comprehensive Income for the period 1 January – 30 June 2015, the Statement of Cash Flows for the period 1 January – 30 June 2015, the Statement of Changes in Equity for the period 1 January – 30 June 2015, and the accompanying Notes on significant accounting policies and other explanatory information.

These Financial Statements were accepted by the Supervisory Board of HBOR on 31<sup>st</sup> August 2015 through written voting procedure.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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### 3. Summary of significant accounting policies

#### 3.1. Accounting policies

Principal accounting policies applied when preparing these Interim Condensed Financial Statements are consistent with those followed in the preparation of the Annual Financial Statements as of 31 December 2014.

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

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

*New and amended International Financial Reporting Standards effective in the reporting period with the assessment of impact on the financial statements:*

- Annual Improvements 2010-2012 (effective for periods beginning on or after 1 February 2015, adopted in the European Union on 17 December 2014) – primary with a view to removing inconsistencies and clarifying wording pertaining to:
  - IFRS 2 Share-based Payment – definition of “vesting condition”,
  - IFRS 3 Business Combinations – accounting for contingent consideration in a business combination,
  - IFRS 8 Operating Segments – aggregation of operating segments and reconciliation of the total of the reportable segments’ assets to the entity’s assets,
  - IFRS 13 Fair Value Measurement – measuring short-term receivables and payables,
  - IAS 16 Property, Plant and Equipment – proportionate restatement of accumulated depreciation application in revaluation method,
  - IAS 24 Related Party Disclosures – clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. The entity obtaining the services from the management entity shall disclose in its financial statements the costs arisen as a result of obtained management services.
  - IAS 38 Intangible Assets – revaluation method.
- Annual Improvements 2011-2013 (effective for periods beginning on or after 1 January 2015, adopted in the European Union on 18 December 2014) – primary with a view to removing inconsistencies and clarifying wording pertaining to:
  - IFRS 1 First-time Adoption of IFRSs – clarification of meaning of “effective IFRSs”,
  - IFRS 3 Business Combinations – regulates the exclusion of joint ventures from the scope of this standard,
  - IFRS 13 Fair Value Measurement – extends the portfolio exception to all contracts accounted for within the scope of IFRS 9 / IAS 39,
  - IAS 40 Investment Property – clarifies the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property when determining whether a specific transaction represents the acquisition of an asset or a business combination.

The above amendments do not affect the financial statements of the Group.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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

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

- Amended IAS 19 Employee Benefits (effective for periods beginning on or after 1 February 2015, adopted in the European Union on 17 December 2014) – Defined Benefit Plans: Employee Contributions. The amendment permits the recognition of contributions from employees as a reduction of service cost in the period in which the related service is rendered if the amount of contributions is independent of the number of years of service or employment. This amendment does not affect the financial statements of the Group.
- New interpretation - IFRIC 21 Levies (effective for periods beginning on or after 1 January 2015, adopted in the European Union on 13 June 2014). This interpretation relates to IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event, known as an obligating event. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Interpretation is applicable to all levies except outflows within the scope of other standards (e.g. IAS 12 Income Taxes) fines and other penalties due to law violation. This amendment does not affect the financial statements of the Group, and should such obligations arise, the Group shall appropriately apply the interpretation.

Below, an overview of standards is given that have not become effective in the reporting period and have not been adopted in the European Union yet. The Group will apply the standards that are to be applied to its operations when they become effective.

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

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

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

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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

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

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

- IFRS 9 Financial Instruments (continued)

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

*Own credit* - IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

The Group shall assess and quantify possible effects.

- 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 shall not affect the Group after the initial application.

- 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.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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

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

*New and amended International Financial Reporting Standards that become effective after the reporting period with the assessment of impact on the financial statements (continued):*

- Amended IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (effective for periods beginning on or after 1 January 2016 but have not been adopted in the European Union yet) 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 extent 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.
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures (effective for periods beginning on or after 1 January 2016 but have not been adopted in the European Union yet) - Investment Entities – provide an exemption from the consolidation with an objective of clarifying the requirements when accounting for investment entities and provide relief in particular circumstances.  
The above new IFRS will not affect the Group after the initial application.
- Amendments to IFRS 11 Joint Arrangements (effective for periods beginning on or after 1 January 2016 but have not been adopted in the European Union yet) amending the provisions of the existing Standard and clarifying accounting for acquisitions of interests in joint operations.  
The above amendments will 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 but have not been adopted in the European Union yet) – 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.  
The Group shall apply expert judgement in accordance with its business model.
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (effective for periods beginning on or after 1 January 2016 but have not been adopted in the European Union yet) 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.  
The above amendments will not affect the Group after the initial application.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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

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

*New and amended International Financial Reporting Standards that become effective after the reporting period with the assessment of impact on the financial statements (continued):*

- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (effective for periods beginning on or after 1 January 2016 but have not been adopted in the European Union yet) – Agriculture: Bearer Plants, amending the existing standard pertaining to the bearer biological assets. These amendments will not affect the Group after the initial application.
- Amendments to IAS 27 Separate Financial Statements (effective for periods beginning on or after 1 January 2016 but have not been adopted in the European Union yet) allow the use of the equity method in separate financial statements to account for investments in subsidiaries, joint ventures and associates.  
Taking into account the Group's existing organisation and business model, these amendments will not affect the financial statements.
- Annual Improvements 2012-2014 (effective for periods beginning on or after 1 January 2016 but have not been adopted in the European Union yet) – 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,
  - 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.

The Group shall consider possible effects of the above amendments in the light of its business model.

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

for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**4. Interest income**

Interest income by borrowers:

	<b>Group</b>				<b>Bank</b>			
	<b>2015</b>		<b>2014</b>		<b>2015</b>		<b>2014</b>	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Public sector	18,365	35,442	16,600	32,451	18,146	35,005	16,394	32,079
State-owned companies	9,028	17,048	19,911	27,681	9,028	17,048	19,911	27,681
Foreign companies	615	1,184	786	1,575	615	1,184	786	1,575
Domestic companies	88,905	183,342	90,640	182,421	88,899	183,330	90,640	182,421
Domestic financial institutions	77,406	158,118	89,620	179,636	77,306	157,905	89,438	179,252
Foreign financial institutions	283	537	91	220	283	537	91	220
Penalty interest	2,245	4,459	4,098	6,675	2,245	4,459	4,098	6,675
Other	14,880	32,597	14,680	35,292	14,880	32,597	14,680	35,292
	<b>211,727</b>	<b>432,727</b>	<b>236,426</b>	<b>465,951</b>	<b>211,402</b>	<b>432,065</b>	<b>236,038</b>	<b>465,195</b>



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

for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**4. Interest income (continued)**

Interest income by type of facility:

	Group				Bank			
	2015		2014		2015		2014	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Interest on loans								
- financial institutions	77,466	158,288	89,464	180,949	77,466	158,288	89,464	180,949
- other customers	121,572	249,992	136,459	264,843	121,572	249,992	136,459	264,843
	<b>199,038</b>	<b>408,280</b>	<b>225,923</b>	<b>445,792</b>	<b>199,038</b>	<b>408,280</b>	<b>225,923</b>	<b>445,792</b>
Investments in securities	12,315	23,702	10,186	19,453	12,083	23,238	9,981	19,081
Deposits	374	745	317	705	281	547	134	322
Interest income on cash	-	-	-	1	-	-	-	-
	<b>211,727</b>	<b>432,727</b>	<b>236,426</b>	<b>465,951</b>	<b>211,402</b>	<b>432,065</b>	<b>236,038</b>	<b>465,195</b>

The difference between interest income and interest received or collected (see Statement of Cash Flows) mostly relates to the income in respect to interest subsidies inflows that are recorded upon payment. The discounted amount of the interest subsidies provided for the final user is presented as deferred interest income and is recognized in the statement of profit or loss and other comprehensive income on a time basis during the repayment of the loan. Interest income earned on this basis for the period 1 January to 30 June 2015 amounts to HRK 85,607 thousand (1 January to 30 June 2014: HRK 109,929 thousand).

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

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

for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**5. Interest expense**

Interest expense by type of payee:

	Group				Bank			
	2015		2014		2015		2014	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Domestic financial institutions	2,655	5,278	4,968	10,871	2,655	5,278	4,968	10,871
Foreign financial institutions	117,235	235,235	119,256	236,876	117,235	235,235	119,256	236,876
	<b>119,890</b>	<b>240,513</b>	<b>124,224</b>	<b>247,747</b>	<b>119,890</b>	<b>240,513</b>	<b>124,224</b>	<b>247,747</b>

Interest expense by type of facility:

	Group				Bank			
	2015		2014		2015		2014	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Borrowings	72,731	146,107	74,304	148,039	72,731	146,107	74,304	148,039
Debt securities	47,159	94,406	49,920	99,708	47,159	94,406	49,920	99,708
	<b>119,890</b>	<b>240,513</b>	<b>124,224</b>	<b>247,747</b>	<b>119,890</b>	<b>240,513</b>	<b>124,224</b>	<b>247,747</b>

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

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

for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**6. Operating expenses**

Operating expenses can be shown as follows:

	<b>Group</b>				<b>Bank</b>			
	<b>2015</b>		<b>2014</b>		<b>2015</b>		<b>2014</b>	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
General and administrative expenses:								
Employee expenses	20,684	40,598	20,516	38,614	19,943	39,191	19,695	37,094
Depreciation	1,329	4,013	1,826	3,861	1,282	3,919	1,786	3,782
Administration expenses	2,799	5,312	2,600	4,534	2,748	5,224	2,537	4,440
Material and services	7,450	13,193	7,749	12,838	6,973	12,356	7,345	12,079
	<b>32,262</b>	<b>63,116</b>	<b>32,691</b>	<b>59,847</b>	<b>30,946</b>	<b>60,690</b>	<b>31,363</b>	<b>57,395</b>
Other expenses:								
Taxes and contributions	136	273	119	236	135	271	118	235
Other expenses	1,160	4,108	7,171	31,370	285	2,463	6,306	29,944
	<b>1,296</b>	<b>4,381</b>	<b>7,290</b>	<b>31,606</b>	<b>420</b>	<b>2,734</b>	<b>6,424</b>	<b>30,179</b>
	<b>33,558</b>	<b>67,497</b>	<b>39,981</b>	<b>91,453</b>	<b>31,366</b>	<b>63,424</b>	<b>37,787</b>	<b>87,574</b>

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

for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**6. Operating expenses (continued)**

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

	<b>Group</b>				<b>Bank</b>			
	<b>2015</b>		<b>2014</b>		<b>2015</b>		<b>2014</b>	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Changes in claims provisions	213	741	223	303	-	-	-	-
Changes in claims provisions, reinsurer's share	8	(136)	(12)	191	-	-	-	-
<b>Expenses of insurance operations</b>	<b>221</b>	<b>605</b>	<b>211</b>	<b>494</b>	-	-	-	-

Since the beginning of subsidiary's operations, provisions for incurred but not reported losses (IBNR) have been calculated through the expected loss quota method, because this was a newly established insurance company, where there was a lack of required data for the use of sophisticated actuarial methods.

In the meantime, provision for claims volatility was formed in a significant amount that from the IBNR provision assumed the role of evening the results and further increase in this provision is expected. Taking into account that the IBNR loss that the company can detect based on default records as of 30 June 2015 is lower than the IBNR amount as of 31 December 2014, it has been evaluated that further gross IBNR in relation to 31 December 2014 is not necessary.

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

for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**7. Impairment loss and provisions:**

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

	<b>Group</b>				<b>Bank</b>			
	<b>2015</b>		<b>2014</b>		<b>2015</b>		<b>2014</b>	
	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30	Current period April 1 – June 30	Cumulatively January 1 – June 30
Impairment losses on cash on hand and due from banks	2,129	3,802	1,295	(16,070)	2,129	3,802	1,295	(16,070)
Impairment losses on deposits with other banks	(3,865)	(7,101)	(5,648)	(94)	(3,865)	(7,101)	(5,648)	(94)
Impairment losses on loans to financial institutions	10,363	(10,512)	(10,684)	(57,636)	10,363	(10,512)	(10,684)	(57,636)
Impairment losses on loans to other customers and interest	42,979	106,909	66,808	121,118	42,979	106,909	66,808	121,118
Impairment losses on non-current assets held for sale	(26)	(38)	(22)	313	(26)	(38)	(22)	313
Impairment losses on assets available	273	287	(3,828)	(3,828)	273	287	(3,828)	(3,828)
Impairment losses on other assets	(33)	49	47	6	(34)	72	(17)	25
<b>Total increase in provision for impairment losses on assets</b>	<b>51,820</b>	<b>93,396</b>	<b>47,968</b>	<b>43,809</b>	<b>51,819</b>	<b>93,419</b>	<b>47,904</b>	<b>43,828</b>
<b>Provision for guarantees and</b>	<b>948</b>	<b>4,142</b>	<b>(18,561)</b>	<b>(3,056)</b>	<b>948</b>	<b>4,142</b>	<b>(18,561)</b>	<b>(3,056)</b>
<b>Other provisions</b>	<b>(2,398)</b>	<b>(14,189)</b>	<b>(2,476)</b>	<b>(1,955)</b>	<b>(2,398)</b>	<b>(14,189)</b>	<b>(2,404)</b>	<b>(1,872)</b>
<b>Total increase/(decrease) in provision for guarantees and commitments and other provisions</b>	<b>(1,450)</b>	<b>(10,047)</b>	<b>(21,037)</b>	<b>(5,011)</b>	<b>(1,450)</b>	<b>(10,047)</b>	<b>(20,965)</b>	<b>(4,928)</b>
<b>Total increase of provisions</b>	<b>50,370</b>	<b>83,349</b>	<b>26,931</b>	<b>38,798</b>	<b>50,369</b>	<b>83,372</b>	<b>26,939</b>	<b>38,900</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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**7. Impairment loss and provisions (continued):**

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

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

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

The highest charges of provisions in the reporting period relate to provisions for loans to clients undergoing bankruptcy or pre-bankruptcy settlement procedure, loans for which delays in payment were recorded and under restructured loans.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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

	<b>Group</b>		<b>Bank</b>	
	<b>Jun 30, 2015</b>	<b>Dec 31, 2014</b>	<b>Jun 30, 2015</b>	<b>Dec 31, 2014</b>
Account with the Croatian National Bank	24,585	62,007	24,585	62,007
Due from domestic banks in foreign currency	84	90	84	90
Due from foreign banks in foreign currency	447,372	67,232	447,372	67,232
Due from domestic banks in HRK	546	133	-	-
	<u>472,587</u>	<u>129,462</u>	<u>472,041</u>	<u>129,329</u>
Provisions for impairment losses	(4,475)	(673)	(4,475)	(673)
	<b><u>468,112</u></b>	<b><u>128,789</u></b>	<b><u>467,566</u></b>	<b><u>128,656</u></b>

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 8,759 thousand (31 December 2014: EUR 3,759 thousand).

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**9. Loans to financial institutions**

	Group		Bank	
	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
Loans due within one year	4,020,569	4,691,797	4,020,569	4,691,797
Loans due in over one year	9,147,141	9,419,087	9,147,141	9,419,087
Accrued interest	16,040	19,819	16,040	19,819
Deferred recognition of loan origination fees	(66,542)	(68,311)	(66,542)	(68,311)
	<u>13,117,208</u>	<u>14,062,392</u>	<u>13,117,208</u>	<u>14,062,392</u>
Provisions for impairment losses	(541,629)	(564,191)	(541,629)	(564,191)
	<b><u>12,575,579</u></b>	<b><u>13,498,201</u></b>	<b><u>12,575,579</u></b>	<b><u>13,498,201</u></b>

Loans to financial institutions by purpose of the loan programmes:

	Group		Bank	
	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
Loan programme for reconstruction and development of the economy	3,357,124	3,755,781	3,357,124	3,755,781
Export financing	3,752,261	3,766,853	3,752,261	3,766,853
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	1,612,051	1,607,359	1,612,051	1,607,359
Loan programme for small and medium-sized enterprises	3,130,931	3,372,857	3,130,931	3,372,857
Loan programme for war-torn and demolished housing and business facilities	12,395	13,350	12,395	13,350
Other	1,302,948	1,594,684	1,302,948	1,594,684
Accrued interest	16,040	19,819	16,040	19,819
Deferred recognition of loan fees	(66,542)	(68,311)	(66,542)	(68,311)
	<u>13,117,208</u>	<u>14,062,392</u>	<u>13,117,208</u>	<u>14,062,392</u>
Provisions for impairment losses	(541,629)	(564,191)	(541,629)	(564,191)
	<b><u>12,575,579</u></b>	<b><u>13,498,201</u></b>	<b><u>12,575,579</u></b>	<b><u>13,498,201</u></b>

In the reporting period, HBOR established cooperation with leasing companies (non-banking financial institutions) that is based on framework loans approved to leasing companies for the financing of small and medium entrepreneurs through financial leasing.

Average interest rates for total loans to financial institutions, at year level, are stated at 1.24% (1 January to 30 June 2014: 1.41%) and for loans under HBOR loan programmes excluding the liquidity reserve at 1.23% (1 January to 30 June 2014: 1.40%).

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

Item „Other“ refers to reverse REPO agreements in the total amount of HRK 1,087,248 thousand (31 December 2014: HRK 1,515,684 thousand). The above placements are collateralised by securities in the amount of HRK 1,160,298 thousand (31 December 2014: HRK 1,616,159 thousand).

In the reporting period, provisions for loans to financial institutions in the amount of HRK 43,109 thousand were charged and provisions in the amount of HRK 53,621 thousand were reversed.

The transfer of provisions to loans to other customers was made in the amount of HRK 9,553 thousand, which relates to the transfer of provisions of Nava banka d.d. in bankruptcy proceedings to final borrowers, for placements taken over by HBOR into a direct creditor-debtor relationship.



Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**10. Loans to other customers**

	Group		Bank	
	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
Domestic companies	8,503,244	8,219,652	8,503,244	8,219,652
State-owned companies	1,000,182	881,088	1,000,182	881,088
Public sector	660,019	666,361	660,019	666,361
Foreign companies	94,586	111,673	94,586	111,673
Non-profit institutions	6,518	12,201	6,518	12,201
Other	794,634	799,632	794,634	799,632
Accrued interest	83,664	55,397	83,664	55,397
Deferred recognition of loan origination fees	(90,855)	(86,982)	(90,855)	(86,982)
	<b>11,051,992</b>	<b>10,659,022</b>	<b>11,051,992</b>	<b>10,659,022</b>
Provisions for impairment losses	(2,451,867)	(2,346,608)	(2,451,867)	(2,346,608)
	<b>8,600,125</b>	<b>8,312,414</b>	<b>8,600,125</b>	<b>8,312,414</b>

Loans to other customers by loan programmes:

	Group		Bank	
	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
Loan programme for reconstruction and development of the economy	3,860,972	3,917,545	3,860,972	3,917,545
Export financing	2,776,206	2,413,843	2,776,206	2,413,843
Loan programme for reconstruction and development of infrastructure in the	2,178,027	2,118,092	2,178,027	2,118,092
Loan programme for small and medium-sized enterprises	2,160,036	2,145,435	2,160,036	2,145,435
Other	83,942	95,692	83,942	95,692
Accrued interest	83,664	55,397	83,664	55,397
Deferred recognition of loan origination fees	(90,855)	(86,982)	(90,855)	(86,982)
	<b>11,051,992</b>	<b>10,659,022</b>	<b>11,051,992</b>	<b>10,659,022</b>
Provisions for impairment losses	(2,451,867)	(2,346,608)	(2,451,867)	(2,346,608)
	<b>8,600,125</b>	<b>8,312,414</b>	<b>8,600,125</b>	<b>8,312,414</b>

Average interest rates for total loans to other customers, at year level, are stated at 1.95% (1 January to 30 June 2014: 2.07%).

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 146,319 thousand were charged for loans to clients undergoing bankruptcy or pre-bankruptcy settlement procedure, loans for which delays in payment were recorded and under restructured loans. In the same period, provisions in the amount of HRK 39,384 thousand were reversed.

The transfer of provisions from loans to financial institutions was made in the amount of HRK 9,553 thousand, which relates to the transfer of provisions of Nava banka d.d. in bankruptcy proceedings to final borrowers, for placements taken over by HBOR into a direct creditor-debtor relationship.

Value adjustment of loans to other customers was reduced by the amount of HRK 1,740 thousand, which relates to the write-off of interest under pre-bankruptcy settlement procedures in the amount of HRK 1,425 thousand and the write-off of principal in the amount of HRK 315 thousand due to the removal of debtors from the court register and the partial receivables settlement.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**11. Assets available for sale**

	<b>Group</b>		<b>Bank</b>	
	<b>Jun 30, 2015</b>	<b>Dec 31, 2014</b>	<b>Jun 30, 2015</b>	<b>Dec 31, 2014</b>
<b><i>Debt instruments:</i></b>				
<b>Listed debt instruments:</b>				
Bonds of the Ministry of Finance of the Republic of Croatia	438,920	396,670	421,070	377,763
Financial institution bonds	530	522	-	-
Corporate bonds	392	395	-	-
Treasury bills of the Ministry of Finance of the Republic of Croatia	1,962,308	1,347,756	1,962,308	1,347,756
Accrued interest	10,374	8,435	10,094	8,130
	<b>2,412,524</b>	<b>1,753,778</b>	<b>2,393,472</b>	<b>1,733,649</b>
<b><i>Equity instruments:</i></b>				
<b>Unlisted equity instruments:</b>				
Investments in shares of foreign legal entities	26	26	26	26
Investments in financial institutions shares	161	161	161	161
Shares of foreign financial institutions – EIF	24,246	23,477	24,246	23,477
Investments in company's shares	24,928	24,641	24,928	24,641
Provision for impairment losses	(24,928)	(24,641)	(24,928)	(24,641)
	<b>24,433</b>	<b>23,664</b>	<b>24,433</b>	<b>23,664</b>
<b><i>Investments in investment funds:</i></b>				
Shares classified as assets available for sale	768,024	727,024	766,905	725,821
	<b>768,024</b>	<b>727,024</b>	<b>766,905</b>	<b>725,821</b>
<b>Balance</b>	<b>3,204,981</b>	<b>2,504,466</b>	<b>3,184,810</b>	<b>2,483,134</b>

In the reporting period, the price of share of company Brodogradilište Viktor Lenac d.d., Rijeka changed, and as of 30 June 2015, it amounted to HRK 6.0 per share (31 December 2014: HRK 5.79 per share). Pursuant to the mentioned, the adjustment of value of the company's share and the value impairment was made.

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

for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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

The following text contains investment breakdown:

	Date of issue	Date of maturity	Interest rate (%)	Jun 30, 2015	Group Dec 31, 2014	Jun 30, 2015	Bank Dec 31, 2014
<b>Debt instruments:</b>							
Listed debt instruments:							
<i>Bonds of the Republic of Croatia indexed to foreign currency:</i>							
RHMF-O-19BA	29.11.2004	29.11.2019	5.375	52,377	52,756	46,750	47,089
RHMF-O-227E	22.7.2011	22.7.2022	6.5	167,726	171,261	167,726	171,261
RHMF-O-247E	10.7.2013	10.7.2024	5.75	13,659	12,614	12,103	12,179
RHMF-O-157A	14.7.2005	14.7.2015	4.25	1,805	1,855	-	-
<i>Bonds of the Republic of Croatia in foreign currency:</i>							
XS0645940288	8.7.2011	9.7.2018	5.875	57,774	59,194	57,774	59,194
XS0776179656	27.4.2012	27.4.2017	6.25	14,434	13,365	14,434	13,365
XS1117298916	11.3.2015	11.3.2025	3.0	47,821	-	47,821	-
<i>Bonds of the Republic of Croatia in HRK:</i>							
RHMF-O-167A	22.7.2011	22.7.2016	5.75	36,988	37,452	36,988	37,452
RHMF-O-172A	8.2.2007	8.2.2017	4.75	601	605	-	-
RHMF-O-187A	10.7.2013	10.7.2018	5.25	42,827	44,667	37,474	37,223
RHMF-O-17BA	25.11.2010	25.11.2017	6.25	542	544	-	-
RHMF-O-15CA	15.12.2005	15.12.2015	5.25	509	517	-	-
RHMF-O-203A	5.3.2010	5.3.2020	6.75	1,857	1,840	-	-
<i>Financial institution bonds in HRK:</i>							
RIBA-O-17BA	23.11.2012	23.11.2017	5.88	530	522	-	-
<i>Corporate bonds indexed to foreign currency:</i>							
JRLN-O-17AA	24.10.2012	24.10.2017	6.5	392	395	-	-
Treasury bills in HRK up to 182 days			0.2 – 0.6	209,836	129,668	209,836	129,668
Treasury bills in HRK up to 364 days			1.5 – 2.0	1,340,992	1,181,960	1,340,992	1,181,960
Treasury bills in foreign currency up to 547 days			1.9	222,595	36,128	222,595	36,128
Treasury bills indexed to foreign currency up to 364 days			0.4	188,885	-	188,885	-
Accrued interest				10,374	8,435	10,374	8,130
				<b>2,412,524</b>	<b>1,753,778</b>	<b>2,393,472</b>	<b>1,733,649</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information  
for the period 1 January – 30 June 2015 (continued)  
(All amounts are expressed in HRK thousand)

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

The following text contains investment breakdown (continued):

	<b>Group</b>		<b>Bank</b>	
	<b>Jun 30, 2015</b>	<b>Dec 31, 2014</b>	<b>Jun 30, 2015</b>	<b>Dec 31, 2014</b>
<b>Equity instruments:</b>				
Non-listed equity instruments:				
Investments in shares of foreign legal entities in foreign currency	26	26	26	26
Investments in financial institutions shares	161	161	161	161
Investments in shares of foreign financial institutions in foreign currency	24,246	23,477	24,246	23,477
Investments in company's shares	24,928	24,641	24,928	24,641
Provision for impairment losses	(24,928)	(24,641)	(24,928)	(24,641)
	<b>24,433</b>	<b>23,664</b>	<b>24,433</b>	<b>23,664</b>
<b>Investments in investment funds in the Republic of Croatia</b>	<b>768,024</b>	<b>727,024</b>	<b>766,905</b>	<b>725,821</b>
<b>Total</b>	<b>3,204,981</b>	<b>2,504,466</b>	<b>3,184,810</b>	<b>2,483,134</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**12. Borrowings**

	Group		Bank	
	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
Balance as of 1 January	11,572,516	12,169,761	11,572,516	12,169,761
New borrowings	353,043	2,507,475	353,043	2,507,475
Repayments	(369,516)	(3,136,291)	(369,516)	(3,136,291)
Net foreign exchange gains/(losses)	(115,677)	31,571	(115,677)	31,571
	<u>11,440,366</u>	<u>11,572,516</u>	<u>11,440,366</u>	<u>11,572,516</u>
Accrued interest	68,934	68,932	68,934	68,932
Deferred recognition of borrowing origination fees	(41,118)	(36,628)	(41,118)	(36,628)
<b>Balance</b>	<b><u>11,468,182</u></b>	<b><u>11,604,820</u></b>	<b><u>11,468,182</u></b>	<b><u>11,604,820</u></b>

**13. Bonds payable**

The book value of bonds includes interest.

Group and Bank	Effective interest rate	Fair value		Fair value	
		Jun 30, 2015	Jun 30, 2015	Dec 31, 2014	Dec 31, 2014
Bonds EUR 150 million	4.836	467,466	454,784	470,597	459,582
Bonds EUR 250 million	5.076	1,946,827	1,892,581	1,981,410	1,912,140
Bonds EUR 150 million	6.37	1,190,429	1,119,873	1,203,119	1,130,318
Accrued interest		-	35,230	-	107,724
Deferred recognition of bond payable origination fees		-	(613)	-	(675)
		<u>3,604,722</u>	<u>3,501,855</u>	<u>3,655,126</u>	<u>3,609,089</u>

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**14. Guarantees and commitments**

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

The balance of total gross contingent liabilities as of 30 June 2015 amounted to HRK 2,917,058 thousand, which is a significant increase of 12% as compared with the beginning of the year, and is a result of increase in approved but undrawn loans and the volume of guarantees issued in foreign currency and in HRK. Overview of guarantees and commitments:

	Group		Bank	
	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
Guarantees issued in HRK	5,052	2,427	5,052	2,427
Guarantees issued in foreign currency	759,706	589,005	759,706	589,005
Issued bills of exchange	9,490	11,518	9,490	11,518
Undrawn loans	2,092,398	1,951,280	2,092,398	1,951,280
EIF – subscribed, not called up capital	48,516	49,034	48,516	49,034
Open letters of credit in foreign currency	1,557	7,046	1,557	7,046
Other irrevocable contingent liabilities	339	339	339	339
	<b>2,917,058</b>	<b>2,610,649</b>	<b>2,917,058</b>	<b>2,610,649</b>
Provisions for guarantees and commitments	(46,911)	(42,551)	(46,911)	(42,551)
	<b>2,870,147</b>	<b>2,568,098</b>	<b>2,870,147</b>	<b>2,568,098</b>

**Guarantees**

Issued guarantees and open letters of credit represent the liability to the Bank to make payments on behalf of customers if the customer is unable to honour its commitments towards third parties or in the event of a specific act, generally related to the export or import of goods and other purposes specified in the contracts with the customers. Guarantees and letters of credit bear the same credit risk as loans.

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

**Commitments upon undrawn loans**

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

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

**Other irrevocable contingent liabilities**

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**15. Related-party transactions**

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

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

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

Exposure and liabilities as of 30 June 2015 and 31 December 2014, and income and expense for the period 1 January to 30 June 2015 and for the period 1 January to 30 June 2014 arising from transactions with related parties, including the Bank's key management personnel, include the following:

a) Related-party transactions

Group	Exposure	Liabilities	Exposure	Liabilities
	Jun 30, 2015	Jun 30, 2015	Dec 31, 2014	Dec 31, 2014
Owner	2,729,656	182,245	2,084,298	183,885
Government funds, executive authorities and agencies	353,149	26,733	350,612	40,839
State-owned companies	1,380,969	3	1,401,869	3
Associates	11	-	144	-
Other intra-group transactions	-	-	-	-
Key management personnel	5,974	-	4,704	-
<b>Total</b>	<b>4,469,759</b>	<b>208,981</b>	<b>3,841,627</b>	<b>224,727</b>

Group	Income	Expense	Income	Expense
	Jun 30, 2015	Jun 30, 2015	Jun 30, 2014	Jun 30, 2014
Owner	28,174	294	26,405	89
Government funds, executive authorities and agencies	6,225	399	6,200	586
State-owned companies	17,129	3,703	13,306	7,545
Associates	359	89	191	-
Other intra-group transactions	-	35	-	36
Key management personnel	87	13	84	-
<b>Total</b>	<b>51,974</b>	<b>4,533</b>	<b>46,186</b>	<b>8,256</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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

a) Related-party transactions (continued)

Bank	Exposure	Liabilities	Exposure	Liabilities
	Jun 30, 2015	Jun 30, 2015	Dec 31, 2014	Dec 31, 2014
Owner	2,729,656	182,245	2,084,298	183,885
Government funds, executive authorities and agencies	333,123	26,497	329,499	40,602
State-owned companies	1,380,968	-	1,401,868	-
Subsidiary companies	36,124	-	36,124	-
Associates	11	-	144	-
Key management personnel	5,686	-	4,400	-
<b>Total</b>	<b>4,485,568</b>	<b>208,742</b>	<b>3,856,333</b>	<b>224,487</b>

Bank	Income	Expense	Income	Expense
	Jun 30, 2015	Jun 30, 2015	Jun 30, 2014	Jun 30, 2014
Owner	28,174	294	26,405	89
Government funds, executive authorities and agencies	5,522	8	5,558	102
State-owned companies	17,130	3,671	13,306	7,514
Subsidiary companies	-	-	5	-
Associates	359	89	191	-
Key management personnel	82	13	79	-
<b>Total</b>	<b>51,267</b>	<b>4,075</b>	<b>45,544</b>	<b>7,705</b>

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

Liabilities include deposits and other liabilities.

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

Expense includes impairment losses and provisions.



Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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

b) Collateral received

	Group		Bank	
	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
The Republic of Croatia	1,741,564	1,742,326	1,645,187	1,647,387
State agencies	635,150	615,551	635,150	615,551
<b>Total</b>	<b>2,376,714</b>	<b>2,357,877</b>	<b>2,280,337</b>	<b>2,262,938</b>

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 50% to 90% of an insured amount.

c) Salaries of key management personnel

Salaries include compensation paid for regular work, annual vacation, national holidays, paid leave, sick leave, jubilee awards and payments pursuant to contracts. Salaries for the Group in the reporting period amounted to HRK 5,527 thousand (1 January to 30 June 2014: HRK 6,618 thousand), and for the Bank amounted to HRK 4,920 thousand (1 January to 30 June 2014: HRK 5,962 thousand).

Remuneration for the work of the members of the Supervisory Board for the Group in the reporting period amounted to HRK 60 thousand (1 January to 30 June 2014: HRK 195 thousand) and for the Bank amounted to HRK 39 thousand (1 January to 30 June 2014: HRK 195 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 20<sup>th</sup> April 2015.

# Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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## 16. Risk management

### 16.1. Introduction

Based on the Act on the Croatian Bank for Reconstruction and Development, the Bank is obliged to mitigate business risks directed by the principles of banking operations. In the process of risk management, the Bank 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 risk management to credit and non-credit risks, by developing risk management procedures and methodologies, recommending and controlling the accepted exposure limits, giving suggestions and recommendations for adequate risk management as well as reporting to the Managing Board and the competent risk management committees.

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

The Managing Board of the Bank is responsible for implementing risk management strategies and establishing an effective and reliable risk management system. In order to accomplish its task, the Managing Board delegated their risk management authority to 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 Committee – manages business changes (co-ordination of procedures for the suggestion, approval, monitoring and implementation of business changes) in order to reduce risks associated with the implementation of business changes.

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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

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

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

As of 30 June 2015, the highest credit exposure of the Group to one debtor equalled HRK 2,890,722 thousand (as of 31 December 2014: HRK 2,941,353 thousand), and of the Bank HRK 2,890,722 thousand (31 December 2014: HRK 2,934,297 thousand) without considering the effect of mitigation through collateral received.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

**Concentration of risk and maximum credit risk exposure**

The table below shows the highest gross credit risk exposures existing in the Statement of Financial Position and in Guarantees and commitments as of the reporting date, before the effect of mitigation through collateral received:

	Group		Bank	
	Gross highest exposure	Gross highest exposure	Gross highest exposure	Gross highest exposure
	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
<b>Assets</b>				
Cash on hand and due from banks	468,108	128,786	467,562	128,653
Deposits with other banks	530,780	1,230,588	525,744	1,213,434
Loans to financial institutions	12,575,579	13,498,201	12,575,579	13,498,201
Loans to other customers	8,600,125	8,312,414	8,600,125	8,312,414
Financial assets at fair value through profit or loss	17,483	2,152	-	-
Assets available for sale	3,204,981	2,504,466	3,184,810	2,483,134
Assets held to maturity	1,448	1,470	-	-
Other assets	5,105	4,790	3,013	2,626
<b>Total</b>	<b>25,403,609</b>	<b>25,682,867</b>	<b>25,356,833</b>	<b>25,638,462</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	4,995	2,399	4,995	2,399
Issued guarantees in foreign currency	741,936	571,328	741,936	571,328
Issued bills of exchange	9,395	11,403	9,395	11,403
Open letters of credit in foreign currency	1,542	6,976	1,542	6,976
Undrawn loans	2,063,428	1,926,623	2,063,428	1,926,623
EIF – subscribed, not called up capital	48,516	49,034	48,516	49,034
Other irrevocable contingent liabilities	335	335	335	335
<b>Total</b>	<b>2,870,147</b>	<b>2,568,098</b>	<b>2,870,147</b>	<b>2,568,098</b>
<b>Total credit risk exposure</b>	<b>28,273,756</b>	<b>28,250,965</b>	<b>28,226,980</b>	<b>28,206,560</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

**Concentration of risk and maximum credit risk exposure (continued)**

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

<b>Group Jun 30, 2015</b>	<b>Republic of Croatia</b>	<b>EU countries</b>	<b>Other countries</b>	<b>Total</b>
<b>Assets</b>				
Cash on hand and due from banks	25,210	427,535	15,363	468,108
Deposits with other banks	5,036	525,744	-	530,780
Loans to financial institutions	12,575,333	-	246	12,575,579
Loans to other customers	8,513,782	-	86,343	8,600,125
Financial assets at fair value through profit or loss	17,483	-	-	17,483
Assets available for sale	3,180,709	24,272	-	3,204,981
Assets held to maturity	1,448	-	-	1,448
Other assets	4,052	1,053	-	5,105
<b>Total</b>	<b>24,323,053</b>	<b>978,604</b>	<b>101,952</b>	<b>25,403,609</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	3,098	1,897	-	4,995
Issued guarantees in foreign currency	741,936	-	-	741,936
Issued bills of exchange	-	9,395	-	9,395
Open letters of credit in foreign currency	1,542	-	-	1,542
Undrawn loans	1,876,145	-	187,283	2,063,428
EIF – subscribed, not called up capital	-	48,516	-	48,516
Other irrevocable contingent liabilities	335	-	-	335
<b>Total</b>	<b>2,623,056</b>	<b>59,808</b>	<b>187,283</b>	<b>2,870,147</b>
<b>Total credit risk exposure</b>	<b>26,946,109</b>	<b>1,038,412</b>	<b>289,235</b>	<b>28,273,756</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

**Concentration of risk and maximum credit risk exposure (continued)**

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

Group Dec 31, 2014	Republic of Croatia	EU countries	Other countries	Total
<b>Assets</b>				
Cash on hand and due from banks	62,226	65,080	1,480	128,786
Deposits with other banks	92,851	1,137,737	-	1,230,588
Loans to financial institutions	13,497,828	-	373	13,498,201
Loans to other customers	8,210,321	-	102,093	8,312,414
Financial assets at fair value through profit or loss	2,152	-	-	2,152
Assets available for sale	2,480,963	23,503	-	2,504,466
Assets held to maturity	1,470	-	-	1,470
Other assets	4,255	535	-	4,790
<b>Total</b>	<b>24,352,066</b>	<b>1,226,855</b>	<b>103,946</b>	<b>25,682,867</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	1,797	602	-	2,399
Issued guarantees in foreign currency	571,328	-	-	571,328
Issued bills of exchange	-	11,403	-	11,403
Open letters of credit in foreign currency	6,976	-	-	6,976
Undrawn loans	1,926,623	-	-	1,926,623
EIF – subscribed, not called up capital	-	49,034	-	49,034
Other irrevocable contingent liabilities	335	-	-	335
<b>Total</b>	<b>2,507,059</b>	<b>61,039</b>	<b>-</b>	<b>2,568,098</b>
<b>Total credit risk exposure</b>	<b>26,859,125</b>	<b>1,287,894</b>	<b>103,946</b>	<b>28,250,965</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

**Concentration of risk and maximum credit risk exposure (continued)**

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

<b>Bank Jun 30, 2015</b>	<b>Republic of Croatia</b>	<b>EU countries</b>	<b>Other countries</b>	<b>Total</b>
<b>Assets</b>				
Cash on hand and due from banks	24,664	427,535	15,363	467,562
Deposits with other banks	-	525,744	-	525,744
Loans to financial institutions	12,575,333	-	246	12,575,579
Loans to other customers	8,513,782	-	86,343	8,600,125
Assets available for sale	3,160,538	24,272	-	3,184,810
Other assets	2,949	64	-	3,013
<b>Total</b>	<b>24,277,266</b>	<b>977,615</b>	<b>101,952</b>	<b>25,356,833</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	3,098	1,897	-	4,995
Issued guarantees in foreign currency	741,936	-	-	741,936
Issued bills of exchange	-	9,395	-	9,395
Open letters of credit in foreign currency	1,542	-	-	1,542
Undrawn loans	1,876,145	-	187,283	2,063,428
EIF – subscribed, not called up capital	-	48,516	-	48,516
Other irrevocable contingent liabilities	335	-	-	335
<b>Total</b>	<b>2,623,056</b>	<b>59,808</b>	<b>187,283</b>	<b>2,870,147</b>
<b>Total credit risk exposure</b>	<b>26,900,322</b>	<b>1,037,423</b>	<b>289,235</b>	<b>28,226,980</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

**Concentration of risk and maximum credit risk exposure (continued)**

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

<b>Bank Dec 31, 2014</b>	<b>Republic of Croatia</b>	<b>EU countries</b>	<b>Other countries</b>	<b>Total</b>
<b>Assets</b>				
Cash on hand and due from banks	62,093	65,080	1,480	128,653
Deposits with other banks	75,697	1,137,737	-	1,213,434
Loans to financial institutions	13,497,828	-	373	13,498,201
Loans to other customers	8,210,321	-	102,093	8,312,414
Assets available for sale	2,459,631	23,503	-	2,483,134
Other assets	2,568	58	-	2,626
<b>Total</b>	<b>24,308,138</b>	<b>1,226,378</b>	<b>103,946</b>	<b>25,638,462</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	1,797	602	-	2,399
Issued guarantees in foreign currency	571,328	-	-	571,328
Issued bills of exchange	-	11,403	-	11,403
Open letters of credit in foreign currency	6,976	-	-	6,976
Undrawn loans	1,926,623	-	-	1,926,623
EIF – subscribed, not called up capital	-	49,034	-	49,034
Other irrevocable contingent liabilities	335	-	-	335
<b>Total</b>	<b>2,507,059</b>	<b>61,039</b>	<b>-</b>	<b>2,568,098</b>
<b>Total credit risk exposure</b>	<b>26,815,197</b>	<b>1,287,417</b>	<b>103,946</b>	<b>28,206,560</b>



Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

**Concentration of risk and maximum credit risk exposure (continued)**

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

Group	Gross highest exposure	Net highest exposure	Gross highest exposure	Net highest exposure
	Jun 30, 2015	Jun 30, 2015	Dec 31, 2014	Dec 31, 2014
Financial intermediation and insurance	15,321,125	-	16,311,161	-
Water and electric supply and other infrastructure	1,334,127	1,055,652	1,351,068	1,048,696
Tourism	2,323,971	182,557	2,092,517	36,556
Transport, warehousing and connections	1,424,708	109,998	1,244,400	31,440
Shipbuilding	1,120,891	727,555	793,095	333,670
Agriculture and fishery	631,406	164,169	635,068	151,005
Food industry	597,878	106,567	695,024	154,032
Construction industry	617,063	149,427	625,504	174,564
Other industry	487,580	150,277	560,657	173,893
Public administration	2,396,790	2,396,790	1,742,587	1,742,587
Education	40,058	34,350	51,533	45,982
Manufacture of basic metals and fabricated metal products, except machinery and equipment	263,063	54,259	256,836	36,233
Manufacture of chemicals and chemical products	54,332	23,982	63,688	27,360
Manufacture of other non-metallic mineral products	266,581	538	302,891	587
Pharmaceutical industry	308,998	1,378	328,499	162,348
Other	1,085,185	121,135	1,196,437	330,105
<b>Total credit risk exposure</b>	<b>28,273,756</b>	<b>5,278,634</b>	<b>28,250,965</b>	<b>4,449,058</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

**Concentration of risk and maximum credit risk exposure (continued)**

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

Bank	Gross highest exposure	Net highest exposure	Gross highest exposure	Net highest exposure
	Jun 30, 2015	Jun 30, 2015	Dec 31, 2014	Dec 31, 2014
Financial intermediation and insurance	15,295,420	-	16,289,520	-
Water and electric supply and other infrastructure	1,334,127	1,055,652	1,351,068	1,048,696
Tourism	2,323,971	182,557	2,092,517	36,556
Transport, warehousing and connections	1,424,281	109,571	1,244,000	31,041
Shipbuilding	1,120,891	727,555	793,095	333,670
Agriculture and fishery	631,406	164,169	635,066	151,002
Food industry	597,711	106,400	694,843	153,851
Construction industry	616,918	149,282	625,396	174,456
Other industry	487,395	150,092	560,376	173,613
Public administration	2,377,161	2,377,161	1,721,474	1,721,474
Education	40,058	34,350	51,533	45,982
Manufacture of basic metals and fabricated metal products, except machinery and equipment	263,030	54,227	256,815	36,212
Manufacture of chemicals and chemical products	54,290	23,939	63,655	27,327
Manufacture of other non-metallic mineral products	266,458	415	302,862	558
Pharmaceutical industry	308,882	1,262	328,150	161,999
Other	1,084,981	120,931	1,196,190	329,858
<b>Total credit risk exposure</b>	<b>28,226,980</b>	<b>5,257,563</b>	<b>28,206,560</b>	<b>4,426,295</b>

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

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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**16. Risk management (continued)**

**16.2. Credit risk (continued)**

**Concentration of risk and maximum credit risk exposure (continued)**

The fair value of collateral for the Group as of 30 June 2015 amounted to HRK 22,995,122 thousand (31 December 2014: HRK 23,801,907 thousand), and for the Bank HRK 22,969,417 thousand (31 December 2014: HRK 23,780,265 thousand).

In the total net highest exposure of the Bank as of 30 June 2015, the credit risk of HRK 3,741,301 thousand (31 December 2014: HRK 3,095,525 thousand) is not covered with ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 445,163 thousand (31 December 2014: HRK 472,311 thousand), from local (regional) authorities of HRK 301,297 thousand (31 December 2014: HRK 241,220 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 251,877 thousand (31 December 2014: HRK 255,489 thousand), government funds of HRK 3,633 thousand (31 December 2014: HRK 4,471 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 2,393,472 thousand (31 December 2014: HRK 1,733,649 thousand). In addition, an amount of HRK 345,859 thousand (31 December 2014: HRK 388,385 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.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

Credit risk exposure by internal credit rating:

Internal credit rating	Historical default rate (%)	Historical default rate (%)	Group		Bank	
	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
A	1.65%	2.07%	26,597,588	26,367,120	26,550,812	26,322,715
B	35.11%	33.43%	1,676,168	1,883,845	1,676,168	1,883,845
C	93.18%	93.16%	-	-	-	-
<b>Total</b>			<b>28,273,756</b>	<b>28,250,965</b>	<b>28,226,980</b>	<b>28,206,560</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

**Credit risk quality according to type of financial assets**

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

Group	Gross exposure of portfolio of risk group A	Gross exposure of portfolio of risk group B	Gross exposure of portfolio of risk group C	Gross exposure of total portfolio	Net exposure of portfolio of risk group A	Net exposure of portfolio of risk group B	Net exposure of portfolio of risk group C	Net exposure of total portfolio
<b>Jun 30, 2015</b>								
<b>Assets</b>								
Cash on hand and due from banks	468,108	-	-	468,108	-	-	-	-
Deposits with other banks	530,780	-	-	530,780	-	-	-	-
Loans to financial institutions	12,196,116	379,463	-	12,575,579	-	-	-	-
Loans to other customers	7,356,570	1,243,555	-	8,600,125	2,185,101	30,887	-	2,215,988
Financial assets at fair value through profit or loss	17,483	-	-	17,483	-	-	-	-
Assets available for sale	3,204,981	-	-	3,204,981	2,411,991	-	-	2,411,991
Assets held to maturity	1,448	-	-	1,448	1,448	-	-	1,448
Other assets	5,051	54	-	5,105	3,921	54	-	3,975
<b>Total</b>	<b>23,780,537</b>	<b>1,623,072</b>	<b>-</b>	<b>25,403,609</b>	<b>4,602,461</b>	<b>30,941</b>	<b>-</b>	<b>4,633,402</b>
<b>Guarantees and commitments</b>								
Guarantees issued in HRK	4,995	-	-	4,995	1,798	-	-	1,798
Issued guarantees in foreign currency	699,102	42,834	-	741,936	322,055	-	-	322,055
Issued bills of exchange	9,395	-	-	9,395	-	-	-	-
Open letters of credit in foreign currency	1,542	-	-	1,542	-	-	-	-
Undrawn loans	2,053,166	10,262	-	2,063,428	321,044	-	-	321,044
EIF – subscribed, not called up capital	48,516	-	-	48,516	-	-	-	-
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
<b>Total</b>	<b>2,817,051</b>	<b>53,096</b>	<b>-</b>	<b>2,870,147</b>	<b>645,232</b>	<b>-</b>	<b>-</b>	<b>645,232</b>
<b>Total credit risk exposure</b>	<b>26,597,588</b>	<b>1,676,168</b>	<b>-</b>	<b>28,273,756</b>	<b>5,247,693</b>	<b>30,941</b>	<b>-</b>	<b>5,278,634</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

Group	Gross exposure of portfolio of risk group A	Gross exposure of portfolio of risk group B	Gross exposure of portfolio of risk group C	Gross exposure of total portfolio	Net exposure of portfolio of risk group A	Net exposure of portfolio of risk group B	Net exposure of portfolio of risk group C	Net exposure of total portfolio
<b>Dec 31, 2014</b>								
<b>Assets</b>								
Cash on hand and due from banks	128,786	-	-	128,786	-	-	-	-
Deposits with other banks	1,230,588	-	-	1,230,588	-	-	-	-
Loans to financial institutions	13,043,594	454,607	-	13,498,201	-	-	-	-
Loans to other customers	6,935,721	1,376,693	-	8,312,414	2,167,387	42,015	-	2,209,402
Financial assets at fair value through profit or loss	2,152	-	-	2,152	-	-	-	-
Assets available for sale	2,504,466	-	-	2,504,466	1,753,253	-	-	1,753,253
Assets held to maturity	1,470	-	-	1,470	1,470	-	-	1,470
Other assets	4,740	50	-	4,790	4,171	50	-	4,221
<b>Total</b>	<b>23,851,517</b>	<b>1,831,350</b>	<b>-</b>	<b>25,682,867</b>	<b>3,926,281</b>	<b>42,065</b>	<b>-</b>	<b>3,968,346</b>
<b>Guarantees and commitments</b>								
Guarantees issued in HRK	2,399	-	-	2,399	1,798	-	-	1,798
Issued guarantees in foreign currency	521,703	49,625	-	571,328	311,724	-	-	311,724
Issued bills of exchange	11,403	-	-	11,403	-	-	-	-
Open letters of credit in foreign currency	6,976	-	-	6,976	-	-	-	-
Undrawn loans	1,923,753	2,870	-	1,926,623	166,855	-	-	166,855
EIF – subscribed, not called up capital	49,034	-	-	49,034	-	-	-	-
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
<b>Total</b>	<b>2,515,603</b>	<b>52,495</b>	<b>-</b>	<b>2,568,098</b>	<b>480,712</b>	<b>-</b>	<b>-</b>	<b>480,712</b>
<b>Total credit risk exposure</b>	<b>26,367,120</b>	<b>1,883,845</b>	<b>-</b>	<b>28,250,965</b>	<b>4,406,993</b>	<b>42,065</b>	<b>-</b>	<b>4,449,058</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

Bank	Gross exposure of portfolio of risk group A	Gross exposure of portfolio of risk group B	Gross exposure of portfolio of risk group C	Gross exposure of total portfolio	Net exposure of portfolio of risk group A	Net exposure of portfolio of risk group B	Net exposure of portfolio of risk group C	Net exposure of total portfolio
<b>Jun 30, 2015</b>								
<b>Assets</b>								
Cash on hand and due from banks	467,562	-	-	467,562	-	-	-	-
Deposits with other banks	525,744	-	-	525,744	-	-	-	-
Loans to financial institutions	12,196,116	379,463	-	12,575,579	-	-	-	-
Loans to other customers	7,356,570	1,243,555	-	8,600,125	2,185,101	30,887	-	2,215,988
Assets available for sale	3,184,810	-	-	3,184,810	2,393,472	-	-	2,393,472
Other assets	2,959	54	-	3,013	2,817	54	-	2,871
<b>Total</b>	<b>23,733,761</b>	<b>1,623,072</b>	<b>-</b>	<b>25,356,833</b>	<b>4,581,390</b>	<b>30,941</b>	<b>-</b>	<b>4,612,331</b>
<b>Guarantees and commitments</b>								
Guarantees issued in HRK	4,995	-	-	4,995	1,798	-	-	1,798
Issued guarantees in foreign currency	699,102	42,834	-	741,936	322,055	-	-	322,055
Issued bills of exchange	9,395	-	-	9,395	-	-	-	-
Open letters of credit in foreign currency	1,542	-	-	1,542	-	-	-	-
Undrawn loans	2,053,166	10,262	-	2,063,428	321,044	-	-	321,044
EIF – subscribed, not called up capital	48,516	-	-	48,516	-	-	-	-
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
<b>Total</b>	<b>2,817,051</b>	<b>53,096</b>	<b>-</b>	<b>2,870,147</b>	<b>645,232</b>	<b>-</b>	<b>-</b>	<b>645,232</b>
<b>Total credit risk exposure</b>	<b>26,550,812</b>	<b>1,676,168</b>	<b>-</b>	<b>28,226,980</b>	<b>5,226,622</b>	<b>30,941</b>	<b>-</b>	<b>5,257,563</b>

In the total net highest exposure of the Group and the Bank, the amount of loans to other customers of HRK 1,120,567 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 217,929 thousand, local (regional) authorities of HRK 301,297 thousand, public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 251,877 thousand and the government funds of HRK 3,605 thousand. An additional amount of HRK 345,859 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 2,413,043 thousand for the Group and HRK 2,393,472 thousand for the Bank.

Other assets of HRK 906 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds,

The amount of HRK 226,022 thousand relates to a guarantee issued in foreign currency, for which the liability was assumed by the Republic of Croatia.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

Bank	Gross exposure of portfolio of risk group A	Gross exposure of portfolio of risk group B	Gross exposure of portfolio of risk group C	Gross exposure of total portfolio	Net exposure of portfolio of risk group A	Net exposure of portfolio of risk group B	Net exposure of portfolio of risk group C	Net exposure of total portfolio
<b>Dec 31, 2014</b>								
<b>Assets</b>								
Cash on hand and due from banks	128,653	-	-	128,653	-	-	-	-
Deposits with other banks	1,213,434	-	-	1,213,434	-	-	-	-
Loans to financial institutions	13,043,594	454,607	-	13,498,201	-	-	-	-
Loans to other customers	6,935,721	1,376,693	-	8,312,414	2,167,387	42,015	-	2,209,402
Assets available for sale	2,483,134	-	-	2,483,134	1,733,649	-	-	1,733,649
Other assets	2,576	50	-	2,626	2,482	50	-	2,532
<b>Total</b>	<b>23,807,112</b>	<b>1,831,350</b>	<b>-</b>	<b>25,638,462</b>	<b>3,903,518</b>	<b>42,065</b>	<b>-</b>	<b>3,945,583</b>
<b>Guarantees and commitments</b>								
Guarantees issued in HRK	2,399	-	-	2,399	1,798	-	-	1,798
Issued guarantees in foreign currency	521,703	49,625	-	571,328	311,724	-	-	311,724
Issued bills of exchange	11,403	-	-	11,403	-	-	-	-
Open letters of credit in foreign currency	6,976	-	-	6,976	-	-	-	-
Undrawn loans	1,923,753	2,870	-	1,926,623	166,855	-	-	166,855
EIF – subscribed, not called up capital	49,034	-	-	49,034	-	-	-	-
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
<b>Total</b>	<b>2,515,603</b>	<b>52,495</b>	<b>-</b>	<b>2,568,098</b>	<b>480,712</b>	<b>-</b>	<b>-</b>	<b>480,712</b>
<b>Total credit risk exposure</b>	<b>26,322,715</b>	<b>1,883,845</b>	<b>-</b>	<b>28,206,560</b>	<b>4,384,230</b>	<b>42,065</b>	<b>-</b>	<b>4,426,295</b>

In the total net highest exposure of the Group and the Bank, the amount of loans to other customers of HRK 1,152,034 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 262,487 thousand, local (regional) authorities of HRK 241,220 thousand, public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 255,489 thousand and the government funds of HRK 4,453 thousand. An additional amount of HRK 388,385 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 1,754,324 thousand for the Group and HRK 1,733,649 thousand for the Bank.

Other assets of HRK 938 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

The amount of HRK 208,570 thousand relates to a guarantee issued in foreign currency, for which the liability was assumed by the Republic of Croatia.



Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

Group	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
<b>Jun 30, 2015</b>				
<b>Assets</b>				
Cash on hand and due from banks	468,108	-	-	468,108
Deposits with other banks	530,780	-	-	530,780
Loans to financial institutions	12,067,930	128,186	379,463	12,575,579
Loans to other customers	6,924,658	431,912	1,243,555	8,600,125
Financial assets at fair value through profit or loss	17,483	-	-	17,483
Assets available for sale	3,204,981	-	-	3,204,981
Assets held to maturity	1,448	-	-	1,448
Other assets	2,462	2,589	54	5,105
<b>Total</b>	<b>23,217,850</b>	<b>562,687</b>	<b>1,623,072</b>	<b>25,403,609</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	4,995	-	-	4,995
Issued guarantees in foreign currency	699,102	-	42,834	741,936
Issued bills of exchange	9,395	-	-	9,395
Open letters of credit in foreign currency	1,542	-	-	1,542
Undrawn loans	2,053,166	-	10,262	2,063,428
EIF – subscribed, not called up capital	48,516	-	-	48,516
Other irrevocable contingent liabilities	335	-	-	335
<b>Total</b>	<b>2,817,051</b>	<b>-</b>	<b>53,096</b>	<b>2,870,147</b>
<b>Total credit risk exposure</b>	<b>26,034,901</b>	<b>562,687</b>	<b>1,676,168</b>	<b>28,273,756</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

Group	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
<b>Dec 31, 2014</b>				
<b>Assets</b>				
Cash on hand and due from banks	128,786	-	-	128,786
Deposits with other banks	1,230,588	-	-	1,230,588
Loans to financial institutions	12,984,004	59,590	454,607	13,498,201
Loans to other customers	6,737,889	197,832	1,376,693	8,312,414
Financial assets at fair value through profit or loss	2,152	-	-	2,152
Assets available for sale	2,504,466	-	-	2,504,466
Assets held to maturity	1,470	-	-	1,470
Other assets	2,452	2,288	50	4,790
<b>Total</b>	<b>23,591,807</b>	<b>259,710</b>	<b>1,831,350</b>	<b>25,682,867</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	2,399	-	-	2,399
Issued guarantees in foreign currency	521,703	-	49,625	571,328
Issued bills of exchange	11,403	-	-	11,403
Open letters of credit in foreign currency	6,976	-	-	6,976
Undrawn loans	1,923,753	-	2,870	1,926,623
EIF – subscribed, not called up capital	49,034	-	-	49,034
Other irrevocable contingent liabilities	335	-	-	335
<b>Total</b>	<b>2,515,603</b>	<b>-</b>	<b>52,495</b>	<b>2,568,098</b>
<b>Total credit risk exposure</b>	<b>26,107,410</b>	<b>259,710</b>	<b>1,883,845</b>	<b>28,250,965</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

Bank	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
<b>Jun 30, 2015</b>				
<b>Assets</b>				
Cash on hand and due from banks	467,562	-	-	467,562
Deposits with other banks	525,744	-	-	525,744
Loans to financial institutions	12,067,930	128,186	379,463	12,575,579
Loans to other customers	6,924,658	431,912	1,243,555	8,600,125
Assets available for sale	3,184,810	-	-	3,184,810
Other assets	908	2,051	54	3,013
<b>Total</b>	<b>23,171,612</b>	<b>562,149</b>	<b>1,623,072</b>	<b>25,356,833</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	4,995	-	-	4,995
Issued guarantees in foreign currency	699,102	-	42,834	741,936
Issued bills of exchange	9,395	-	-	9,395
Open letters of credit in foreign currency	1,542	-	-	1,542
Undrawn loans	2,053,166	-	10,262	2,063,428
EIF – subscribed, not called up capital	48,516	-	-	48,516
Other irrevocable contingent liabilities	335	-	-	335
<b>Total</b>	<b>2,817,051</b>	<b>-</b>	<b>53,096</b>	<b>2,870,147</b>
<b>Total credit risk exposure</b>	<b>25,988,663</b>	<b>562,149</b>	<b>1,676,168</b>	<b>28,226,980</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

Bank	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
<b>Dec 31, 2014</b>				
<b>Assets</b>				
Cash on hand and due from banks	128,653	-	-	128,653
Deposits with other banks	1,213,434	-	-	1,213,434
Loans to financial institutions	12,984,004	59,590	454,607	13,498,201
Loans to other customers	6,737,889	197,832	1,376,693	8,312,414
Assets available for sale	2,483,134	-	-	2,483,134
Other assets	864	1,712	50	2,626
<b>Total</b>	<b>23,547,978</b>	<b>259,134</b>	<b>1,831,350</b>	<b>25,638,462</b>
<b>Guarantees and commitments</b>				
Guarantees issued in HRK	2,399	-	-	2,399
Issued guarantees in foreign currency	521,703	-	49,625	571,328
Issued bills of exchange	11,403	-	-	11,403
Open letters of credit in foreign currency	6,976	-	-	6,976
Undrawn loans	1,923,753	-	2,870	1,926,623
EIF – subscribed, not called up capital	49,034	-	-	49,034
Other irrevocable contingent liabilities	335	-	-	335
<b>Total</b>	<b>2,515,603</b>	<b>-</b>	<b>52,495</b>	<b>2,568,098</b>
<b>Total credit risk exposure</b>	<b>26,063,581</b>	<b>259,134</b>	<b>1,883,845</b>	<b>28,206,560</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

Group Jun 30, 2015	Up to 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
<b>Assets</b>						
Loans to financial institutions	68,924	2,607	43,760	7,255	5,640	128,186
Loans to other customers	94,183	11,219	239,685	15,859	70,966	431,912
Other assets	192	159	437	241	1,560	2,589
<b>Total</b>	<b>163,299</b>	<b>13,985</b>	<b>283,882</b>	<b>23,355</b>	<b>78,166</b>	<b>562,687</b>

Group Dec 31, 2014	Up to 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
<b>Assets</b>						
Loans to financial institutions	7,538	25,822	12,055	13,831	344	59,590
Loans to other customers	133,118	274	1,559	11,145	51,736	197,832
Other assets	201	84	327	216	1,460	2,288
<b>Total</b>	<b>140,857</b>	<b>26,180</b>	<b>13,941</b>	<b>25,192</b>	<b>53,540</b>	<b>259,710</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.2. Credit risk (continued)**

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

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

Bank Jun 30, 2015	Up to 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
<b>Assets</b>						
Loans to financial institutions	68,924	2,607	43,760	7,255	5,640	128,186
Loans to other customers	94,183	11,219	239,685	15,859	70,966	431,912
Other assets	52	2	290	147	1,560	2,051
<b>Total</b>	<b>163,159</b>	<b>13,828</b>	<b>283,735</b>	<b>23,261</b>	<b>78,166</b>	<b>562,149</b>

Bank Dec 31, 2014	Up to 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
<b>Assets</b>						
Loans to financial institutions	7,538	25,822	12,055	13,831	344	59,590
Loans to other customers	133,118	274	1,559	11,145	51,736	197,832
Other assets	18	6	134	94	1,460	1,712
<b>Total</b>	<b>140,674</b>	<b>26,102</b>	<b>13,748</b>	<b>25,070</b>	<b>53,540</b>	<b>259,134</b>

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 127,024 thousand, i.e. 99%, relates to not executed extensions of revolving loans under framework contracts within the export credit financing programme and the production financing programme.

If the total amount of due and not impaired loans to financial institutions is reduced by the debt of financial institutions under the export credit finance programme and the production financing programme, the remaining debt equals HRK 1,162 thousand.

From total due and not impaired loans to other customers in the reporting period, an amount of HRK 94,183 thousand, i.e. 22%, relates to delays of up to 15 days, of which the amount of HRK 4,606 thousand, i.e. 5%, was guaranteed by the Republic of Croatia.

From total due and not impaired loans to financial institutions in 2014, an amount of HRK 53,100 thousand, i.e. 89%, relates to not executed extensions of revolving loans under framework contracts within the export credit financing programme and the production financing programme.

If the total amount of due and not impaired loans to financial institutions is reduced by the debt of banks under the export credit finance programme and the production financing programme, the remaining debt equals HRK 6,490 thousand.

From total due and not impaired loans to other customers in 2014, an amount of HRK 133,118 thousand, i.e. 67%, relates to delays of up to 15 days, of which the amount of HRK 309 thousand, i.e. less than 1%, was guaranteed by the Republic of Croatia.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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**16. Risk management (continued)**

**16.3. Liquidity risk**

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

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.3. Liquidity risk (continued)**

The table below provides an analysis of total assets and total liabilities and equity as of 30 June 2015 and 31 December 2014 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

Group Jun 30, 2015	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
<b>Assets</b>						
Cash on hand and due from banks	468,112	-	-	-	-	468,112
Deposits with other banks	2,007	226,320	302,453	-	-	530,780
Loans to financial institutions*	1,348,518	659,555	1,842,650	3,453,404	5,271,452	12,575,579
Loans to other customers	1,233,137	243,229	910,601	1,669,735	4,543,423	8,600,125
Financial assets at fair value through profit or loss	17,483	-	-	-	-	17,483
Assets available for sale	3,194,805	10,139	37	-	-	3,204,981
Assets held to maturity	-	10	4	-	1,434	1,448
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	63,611	63,611
Non-current assets held for sale	-	1,201	2,230	14,813	16,021	34,265
Other assets	4,525	1,646	805	12	460	7,448
<b>Total assets (1)</b>	<b>6,268,587</b>	<b>1,142,100</b>	<b>3,058,780</b>	<b>5,137,964</b>	<b>9,896,401</b>	<b>25,503,832</b>
<b>Liabilities</b>						
Deposits	127,097	2,433	13,093	39,824	1,050	183,497
Borrowings	49,410	202,710	661,326	3,100,800	7,453,936	11,468,182
Bonds payable	227,392	35,230	-	2,119,973	1,119,260	3,501,855
Other liabilities	174,752	40,466	132,046	234,960	277,281	859,505
<b>Total liabilities</b>	<b>578,651</b>	<b>280,839</b>	<b>806,465</b>	<b>5,495,557</b>	<b>8,851,527</b>	<b>16,013,039</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,893,739	6,893,739
Retained earnings and reserves	-	-	-	-	2,475,862	2,475,862
Other reserves	-	-	-	-	44,289	44,289
Net profit for the year	-	-	-	-	64,490	64,490
<b>Total equity attributable to equity holders of the parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,478,380</b>	<b>9,478,380</b>
Guarantee fund	-	-	-	-	12,413	12,413
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,490,793</b>	<b>9,490,793</b>
<b>Total liabilities and total equity (2)</b>	<b>578,651</b>	<b>280,839</b>	<b>806,465</b>	<b>5,495,557</b>	<b>18,342,320</b>	<b>25,503,832</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>5,689,936</b>	<b>861,261</b>	<b>2,252,315</b>	<b>(357,593)</b>	<b>(8,445,919)</b>	<b>-</b>
<b>Net cumulative assets/liabilities</b>	<b>5,689,936</b>	<b>6,551,197</b>	<b>8,803,512</b>	<b>8,445,919</b>	<b>-</b>	<b>-</b>

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

\* Receivables of HRK 1,087,248 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 151,613 thousand was placed in the 1 up to 3 months maturity category and an amount of HRK 70,000 thousand was placed in the 3 months up to one year maturity category.



Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.3. Liquidity risk (continued)**

Group Dec 31, 2014	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
<b>Assets</b>						
Cash on hand and due from banks	128,789	-	-	-	-	128,789
Deposits with other banks	-	461,965	768,623	-	-	1,230,588
Loans to financial institutions*	1,194,961	1,258,149	2,047,979	3,586,451	5,410,661	13,498,201
Loans to other customers	1,102,271	224,907	1,139,824	1,629,008	4,216,404	8,312,414
Financial assets at fair value through profit or loss	2,152	-	-	-	-	2,152
Assets available for sale	2,496,172	8,176	118	-	-	2,504,466
Assets held to maturity	-	10	5	-	1,455	1,470
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	66,817	66,817
Non-current assets held for sale	-	-	14,333	8,369	11,525	34,227
Other assets	4,430	1,377	646	40	383	6,876
<b>Total assets (1)</b>	<b>4,928,775</b>	<b>1,954,584</b>	<b>3,971,528</b>	<b>5,223,868</b>	<b>9,707,245</b>	<b>25,786,000</b>
<b>Liabilities</b>						
Deposits	162,229	-	17,529	2,452	686	182,896
Borrowings	33,099	175,993	522,485	2,917,511	7,955,732	11,604,820
Bonds payable	-	107,724	229,791	2,141,931	1,129,643	3,609,089
Other liabilities	178,840	44,337	149,782	261,693	323,520	958,172
<b>Total liabilities</b>	<b>374,168</b>	<b>328,054</b>	<b>919,587</b>	<b>5,323,587</b>	<b>9,409,581</b>	<b>16,354,977</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,893,739	6,893,739
Retained earnings and reserves	-	-	-	-	2,306,634	2,306,634
Other reserves	-	-	-	-	48,877	48,877
Net profit for the year	-	-	-	-	169,228	169,228
<b>Total equity attributable to equity holders of the parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,418,478</b>	<b>9,418,478</b>
Guarantee fund	-	-	-	-	12,545	12,545
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,431,023</b>	<b>9,431,023</b>
<b>Total liabilities and total equity (2)</b>	<b>374,168</b>	<b>328,054</b>	<b>919,587</b>	<b>5,323,587</b>	<b>18,840,604</b>	<b>25,786,000</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>4,554,607</b>	<b>1,626,530</b>	<b>3,051,941</b>	<b>(99,719)</b>	<b>(9,133,359)</b>	<b>-</b>
<b>Net cumulative assets/liabilities</b>	<b>4,554,607</b>	<b>6,181,137</b>	<b>9,233,078</b>	<b>9,133,359</b>	<b>-</b>	<b>-</b>

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

\* Receivables of HRK 1,515,684 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 660,074 thousand was placed in the 1 up to 3 months maturity category.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.3. Liquidity risk (continued)**

The table below provides an analysis of total assets and total liabilities and equity as of 30 June 2015 and 31 December 2014 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

Bank Jun 30, 2015	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
<b>Assets</b>						
Cash on hand and due from banks	467,566	-	-	-	-	467,566
Deposits with other banks	-	225,291	300,453	-	-	525,744
Loans to financial institutions*	1,348,518	659,555	1,842,650	3,453,404	5,271,452	12,575,579
Loans to other customers	1,233,137	243,229	910,601	1,669,735	4,543,423	8,600,125
Assets available for sale	3,174,716	10,094	-	-	-	3,184,810
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	63,421	63,421
Non-current assets held for sale	-	1,201	2,230	14,813	16,021	34,265
Other assets	3,477	602	805	12	7	4,903
<b>Total assets (1)</b>	<b>6,227,414</b>	<b>1,139,972</b>	<b>3,056,739</b>	<b>5,137,964</b>	<b>9,930,448</b>	<b>25,492,537</b>
<b>Liabilities</b>						
Deposits	127,097	2,433	13,093	39,824	1,050	183,497
Borrowings	49,410	202,710	661,326	3,100,800	7,453,936	11,468,182
Bonds payable	227,392	35,230	-	2,119,973	1,119,260	3,501,855
Other liabilities	174,205	37,805	126,251	232,920	278,440	849,621
<b>Total liabilities</b>	<b>578,104</b>	<b>278,178</b>	<b>800,670</b>	<b>5,493,517</b>	<b>8,852,686</b>	<b>16,003,155</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,893,739	6,893,739
Retained earnings and reserves	-	-	-	-	2,476,903	2,476,903
Other reserves	-	-	-	-	42,374	42,374
Net profit for the year	-	-	-	-	63,953	63,953
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,476,969</b>	<b>9,476,969</b>
Guarantee fund	-	-	-	-	12,413	12,413
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,489,382</b>	<b>9,489,382</b>
<b>Total liabilities and total equity (2)</b>	<b>578,104</b>	<b>278,178</b>	<b>800,670</b>	<b>5,493,517</b>	<b>18,342,068</b>	<b>25,492,537</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>5,649,310</b>	<b>861,794</b>	<b>2,256,069</b>	<b>(355,553)</b>	<b>(8,411,620)</b>	<b>-</b>
<b>Net cumulative assets/liabilities</b>	<b>5,649,310</b>	<b>6,511,104</b>	<b>8,767,173</b>	<b>8,411,620</b>	<b>-</b>	<b>-</b>

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

\* Receivables of HRK 1,087,248 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 151,613 thousand was placed in the 1 up to 3 months maturity category and an amount of HRK 70,000 thousand was placed in the 3 months up to one year maturity category.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.3. Liquidity risk (continued)**

Bank Dec 31, 2014	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
<b>Assets</b>						
Cash on hand and due from banks	128,656	-	-	-	-	128,656
Deposits with other banks	-	454,943	758,491	-	-	1,213,434
Loans to financial institutions*	1,194,961	1,258,149	2,047,979	3,586,451	5,410,661	13,498,201
Loans to other customers	1,102,271	224,907	1,139,824	1,629,008	4,216,404	8,312,414
Assets available for sale	2,475,004	8,130	-	-	-	2,483,134
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	66,533	66,533
Non-current assets held for sale	-	-	14,333	8,369	11,525	34,227
Other assets	3,151	492	646	40	-	4,329
<b>Total assets (1)</b>	<b>4,904,043</b>	<b>1,946,621</b>	<b>3,961,273</b>	<b>5,223,868</b>	<b>9,741,247</b>	<b>25,777,052</b>
<b>Liabilities</b>						
Deposits	162,229	-	17,529	2,452	686	182,896
Borrowings	33,099	175,993	522,485	2,917,511	7,955,732	11,604,820
Bonds payable	-	107,724	229,791	2,141,931	1,129,643	3,609,089
Other liabilities	178,323	42,564	144,790	260,007	324,433	950,117
<b>Total liabilities</b>	<b>373,651</b>	<b>326,281</b>	<b>914,595</b>	<b>5,321,901</b>	<b>9,410,494</b>	<b>16,346,922</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,893,739	6,893,739
Retained earnings and reserves	-	-	-	-	2,308,560	2,308,560
Other reserves	-	-	-	-	46,943	46,943
Net profit for the year	-	-	-	-	168,343	168,343
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,417,585</b>	<b>9,417,585</b>
Guarantee fund	-	-	-	-	12,545	12,545
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,430,130</b>	<b>9,430,130</b>
<b>Total liabilities and total equity (2)</b>	<b>373,651</b>	<b>326,281</b>	<b>914,595</b>	<b>5,321,901</b>	<b>18,840,624</b>	<b>25,777,052</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>4,530,392</b>	<b>1,620,340</b>	<b>3,046,678</b>	<b>(98,033)</b>	<b>(9,099,377)</b>	<b>-</b>
<b>Net cumulative assets/liabilities</b>	<b>4,530,392</b>	<b>6,150,732</b>	<b>9,197,410</b>	<b>9,099,377</b>	<b>-</b>	<b>-</b>

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

\* Receivables of HRK 1,515,684 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 660,074 thousand was placed in the 1 up to 3 months maturity category.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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**16. Risk management (continued)**

**16.4. Market risk**

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

**16.4.1. Interest rate risk in the Bank's book**

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

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

The following tables demonstrate the sensitivity of the Group to interest rates risk as of 30 June 2015 and 31 December 2014 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter. Assets and liabilities on which interest is not charged are placed into the non-interest bearing category. The tables below demonstrate the estimation of Group's interest rate risk exposure as of 30 June 2015 and 31 December 2014 which may not be indicative for the positions in other periods.

Group Jun 30, 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
<b>Assets</b>							
Cash on hand and due from banks	546	-	-	-	-	467,566	468,112
Deposits with other banks	2,000	226,146	302,194	-	-	440	530,780
Loans to financial institutions	1,340,936	1,176,947	2,074,322	3,132,267	4,835,259	15,848	12,575,579
Loans to other customers	1,121,529	671,953	1,285,656	1,205,216	4,248,345	67,426	8,600,125
Financial assets at fair value through profit or loss	-	-	-	-	-	17,483	17,483
Assets available for sale	2,402,150	-	-	-	-	802,831	3,204,981
Assets held to maturity	-	-	-	-	1,434	14	1,448
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	63,611	63,611
Non-current assets held for sale	-	-	-	-	-	34,265	34,265
Other assets	-	-	-	-	-	7,448	7,448
<b>Total assets (1)</b>	<b>4,867,161</b>	<b>2,075,046</b>	<b>3,662,172</b>	<b>4,337,483</b>	<b>9,085,038</b>	<b>1,476,932</b>	<b>25,503,832</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

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

Group Jun 30, 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
<b>Liabilities</b>							
Deposits	-	-	-	-	-	183,497	183,497
Borrowings	49,410	133,776	1,603,829	3,003,227	6,609,006	68,934	11,468,182
Bonds payable	227,392	-	-	2,119,973	1,119,260	35,230	3,501,855
Other liabilities	-	-	-	-	-	859,505	859,505
<b>Total liabilities</b>	<b>276,802</b>	<b>133,776</b>	<b>1,603,829</b>	<b>5,123,200</b>	<b>7,728,266</b>	<b>1,147,166</b>	<b>16,013,039</b>
<b>Equity</b>							
Founder's capital	-	-	-	-	-	6,893,739	6,893,739
Retained earnings and reserves	-	-	-	-	-	2,475,862	2,475,862
Other reserves	-	-	-	-	-	44,289	44,289
Net profit for the year	-	-	-	-	-	64,490	64,490
<b>Total equity attributable to equity holders of the parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,478,380</b>	<b>9,478,380</b>
Guarantee fund	-	-	-	-	-	12,413	12,413
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,490,793</b>	<b>9,490,793</b>
<b>Total liabilities and total equity (2)</b>	<b>276,802</b>	<b>133,776</b>	<b>1,603,829</b>	<b>5,123,200</b>	<b>7,728,266</b>	<b>10,637,959</b>	<b>25,503,832</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>4,590,359</b>	<b>1,941,270</b>	<b>2,058,343</b>	<b>(785,717)</b>	<b>1,356,772</b>	<b>(9,161,027)</b>	<b>-</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

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

Group Dec 31, 2014	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
<b>Assets</b>							
Cash on hand and due from banks	133	-	-	-	-	128,656	128,789
Deposits with other banks	-	461,926	768,469	-	-	193	1,230,588
Loans to financial institutions	1,188,129	1,818,144	2,375,582	3,176,882	4,919,883	19,581	13,498,201
Loans to other customers	1,037,542	665,649	1,409,609	1,308,090	3,851,832	39,692	8,312,414
Financial assets at fair value through profit or loss	-	-	-	-	-	2,152	2,152
Assets available for sale	1,769,007	-	-	-	-	735,459	2,504,466
Assets held to maturity	-	-	-	-	1,455	15	1,470
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	66,817	66,817
Non-current assets held for sale	-	-	-	-	-	34,227	34,227
Other assets	-	-	-	-	-	6,876	6,876
<b>Total assets (1)</b>	<b>3,994,811</b>	<b>2,945,719</b>	<b>4,553,660</b>	<b>4,484,972</b>	<b>8,773,170</b>	<b>1,033,668</b>	<b>25,786,000</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

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

Group Dec 31, 2014	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
<b>Liabilities</b>							
Deposits	-	-	-	-	-	182,896	182,896
Borrowings	33,099	107,061	1,445,818	2,828,586	7,121,324	68,932	11,604,820
Bonds payable	-	-	229,791	2,141,931	1,129,643	107,724	3,609,089
Other liabilities	-	-	-	-	-	958,172	958,172
<b>Total liabilities</b>	<b>33,099</b>	<b>107,061</b>	<b>1,675,609</b>	<b>4,970,517</b>	<b>8,250,967</b>	<b>1,317,724</b>	<b>16,354,977</b>
<b>Equity</b>							
Founder's capital	-	-	-	-	-	6,893,739	6,893,739
Retained earnings and reserves	-	-	-	-	-	2,306,634	2,306,634
Other reserves	-	-	-	-	-	48,877	48,877
Net profit for the year	-	-	-	-	-	169,228	169,228
<b>Total equity attributable to equity holders of the parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,418,478</b>	<b>9,418,478</b>
Guarantee fund	-	-	-	-	-	12,545	12,545
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,431,023</b>	<b>9,431,023</b>
<b>Total liabilities and total equity (2)</b>	<b>33,099</b>	<b>107,061</b>	<b>1,675,609</b>	<b>4,970,517</b>	<b>8,250,967</b>	<b>10,748,747</b>	<b>25,786,000</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>3,961,712</b>	<b>2,838,658</b>	<b>2,878,051</b>	<b>(485,545)</b>	<b>522,203</b>	<b>(9,715,079)</b>	<b>-</b>



Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

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

The following tables demonstrate the sensitivity of HBOR to interest rates risk as of 30 June 2015 and 31 December 2014 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter. Assets and liabilities on which interest is not charged are placed into the non-interest bearing category. The tables below demonstrate the estimation of HBOR's interest rate risk exposure as of 30 June 2015 and 31 December 2014 which may not be indicative for the positions in other periods.

Bank	Up to 1	1 to 3	3 months	1 to 3	Over 3	Non-	Total
Jun 30, 2015	month	months	to 1 year	years	years	interest bearing	
<b>Assets</b>							
Cash on hand and due from banks	-	-	-	-	-	467,566	467,566
Deposits with other banks	-	225,146	300,194	-	-	404	525,744
Loans to financial institutions	1,340,936	1,176,947	2,074,322	3,132,267	4,835,259	15,848	12,575,579
Loans to other customers	1,121,529	671,953	1,285,656	1,205,216	4,248,345	67,426	8,600,125
Assets available for sale	2,383,378	-	-	-	-	801,432	3,184,810
Investments in subsidiaries	-	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	63,421	63,421
Non-current assets held for sale	-	-	-	-	-	34,265	34,265
Other assets	-	-	-	-	-	4,903	4,903
<b>Total assets (1)</b>	<b>4,845,843</b>	<b>2,074,046</b>	<b>3,660,172</b>	<b>4,337,483</b>	<b>9,083,604</b>	<b>1,491,389</b>	<b>25,492,537</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

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

Bank Jun 30, 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
<b>Liabilities</b>							
Deposits	-	-	-	-	-	183,497	183,497
Borrowings	49,410	133,776	1,603,829	3,003,227	6,609,006	68,934	11,468,182
Bonds payable	227,392	-	-	2,119,973	1,119,260	35,230	3,501,855
Other liabilities	-	-	-	-	-	849,621	849,621
<b>Total liabilities</b>	<b>276,802</b>	<b>133,776</b>	<b>1,603,829</b>	<b>5,123,200</b>	<b>7,728,266</b>	<b>1,137,282</b>	<b>16,003,155</b>
<b>Equity</b>							
Founder's capital	-	-	-	-	-	6,893,739	6,893,739
Retained earnings and reserves	-	-	-	-	-	2,476,903	2,476,903
Other reserves	-	-	-	-	-	42,374	42,374
Net profit for the year	-	-	-	-	-	63,953	63,953
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,476,969</b>	<b>9,476,969</b>
Guarantee fund	-	-	-	-	-	12,413	12,413
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,489,382</b>	<b>9,489,382</b>
<b>Total liabilities and total equity (2)</b>	<b>276,802</b>	<b>133,776</b>	<b>1,603,829</b>	<b>5,123,200</b>	<b>7,728,266</b>	<b>10,626,664</b>	<b>25,492,537</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>4,569,041</b>	<b>1,940,270</b>	<b>2,056,343</b>	<b>(785,717)</b>	<b>1,355,338</b>	<b>(9,135,275)</b>	<b>-</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

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

<b>Bank Dec 31, 2014</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 3 years</b>	<b>Over 3 years</b>	<b>Non- interest bearing</b>	<b>Total</b>
<b>Assets</b>							
Cash on hand and due from banks	-	-	-	-	-	128,656	128,656
Deposits with other banks	-	454,938	758,486	-	-	10	1,213,434
Loans to financial institutions	1,188,129	1,818,144	2,375,582	3,176,882	4,919,883	19,581	13,498,201
Loans to other customers	1,037,542	665,649	1,409,609	1,308,090	3,851,832	39,692	8,312,414
Assets available for sale	1,749,183	-	-	-	-	733,951	2,483,134
Investments in subsidiaries	-	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	66,533	66,533
Non-current assets held for sale	-	-	-	-	-	34,227	34,227
Other assets	-	-	-	-	-	4,329	4,329
<b>Total assets (1)</b>	<b>3,974,854</b>	<b>2,938,731</b>	<b>4,543,677</b>	<b>4,484,972</b>	<b>8,771,715</b>	<b>1,063,103</b>	<b>25,777,052</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

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

Bank Dec 31, 2014	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Non- interest bearing	Total
<b>Liabilities</b>							
Deposits	-	-	-	-	-	182,896	182,896
Borrowings	33,099	107,061	1,445,818	2,828,586	7,121,324	68,932	11,604,820
Bonds payable	-	-	229,791	2,141,931	1,129,643	107,724	3,609,089
Other liabilities	-	-	-	-	-	950,117	950,117
<b>Total liabilities</b>	<b>33,099</b>	<b>107,061</b>	<b>1,675,609</b>	<b>4,970,517</b>	<b>8,250,967</b>	<b>1,309,669</b>	<b>16,346,922</b>
<b>Equity</b>							
Founder's capital	-	-	-	-	-	6,893,739	6,893,739
Retained earnings and reserves	-	-	-	-	-	2,308,560	2,308,560
Other reserves	-	-	-	-	-	46,943	46,943
Net profit for the year	-	-	-	-	-	168,343	168,343
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,417,585</b>	<b>9,417,585</b>
Guarantee fund	-	-	-	-	-	12,545	12,545
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,430,130</b>	<b>9,430,130</b>
<b>Total liabilities and total equity</b>	<b>(2)</b>	<b>33,099</b>	<b>107,061</b>	<b>1,675,609</b>	<b>4,970,517</b>	<b>8,250,967</b>	<b>10,739,799</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>3,941,755</b>	<b>2,831,670</b>	<b>2,868,068</b>	<b>(485,545)</b>	<b>520,748</b>	<b>(9,676,696)</b>	<b>-</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

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

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

	Group		Bank	
	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
<b>Assets</b>				
Fixed interest rate assets	21,977,354	22,405,395	21,951,602	22,367,012
Variable interest rate assets	2,049,546	2,346,937	2,049,546	2,346,937
Non-interest bearing	1,476,932	1,033,668	1,491,389	1,063,103
<b>Total assets</b>	<b>25,503,832</b>	<b>25,786,000</b>	<b>25,492,537</b>	<b>25,777,052</b>
<b>Liabilities</b>				
Fixed interest rate liabilities	13,905,365	14,095,724	13,905,365	14,095,724
Variable interest rate liabilities	960,508	941,529	960,508	941,529
Non-interest bearing	10,637,959	10,748,747	10,626,664	10,739,799
<b>Total liabilities and total equity</b>	<b>25,503,832</b>	<b>25,786,000</b>	<b>25,492,537</b>	<b>25,777,052</b>

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.2. Currency risk**

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

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.2. Currency risk (continued)**

Total assets and total liabilities and equity as of 30 June 2015 and 31 December 2014 in HRK and foreign currencies can be shown as follows:

Group	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
<b>Jun 30, 2015</b>						
<b>Assets</b>						
Cash on hand and due from banks	15,132	427,350	499	442,981	25,131	468,112
Deposits with other banks	-	525,744	-	525,744	5,036	530,780
Loans to financial institutions	-	7,124,219	-	7,124,219	5,451,360	12,575,579
Loans to other customers	4,783	4,554,992	-	4,559,775	4,040,350	8,600,125
Financial assets at fair value through profit or loss	-	2,044	-	2,044	15,439	17,483
Assets available for sale	14,584	1,039,505	-	1,054,089	2,150,892	3,204,981
Assets held to maturity	-	1,448	-	1,448	-	1,448
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	63,611	63,611
Non-current assets held for sale	-	-	-	-	34,265	34,265
Other assets	-	989	-	989	6,459	7,448
<b>Total assets (1)</b>	<b>34,499</b>	<b>13,676,291</b>	<b>499</b>	<b>13,711,289</b>	<b>11,792,543*</b>	<b>25,503,832</b>
<b>Liabilities</b>						
Deposits	34,996	53,779	42	88,817	94,680	183,497
Borrowings	-	10,721,312	-	10,721,312	746,870	11,468,182
Bonds payable	-	3,501,855	-	3,501,855	-	3,501,855
Other liabilities	-	7,551	10,810	18,361	841,144	859,505
<b>Total liabilities</b>	<b>34,996</b>	<b>14,284,497</b>	<b>10,852</b>	<b>14,330,345</b>	<b>1,682,694</b>	<b>16,013,039</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,893,739	6,893,739
Retained earnings and reserves	-	-	-	-	2,475,862	2,475,862
Other reserves	-	-	-	-	44,289	44,289
Net profit for the year	-	-	-	-	64,490	64,490
<b>Total equity attributable to equity holders of the parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,478,380</b>	<b>9,478,380</b>
Guarantee fund	-	12,413	-	12,413	-	12,413
<b>Total equity</b>	<b>-</b>	<b>12,413</b>	<b>-</b>	<b>12,413</b>	<b>9,478,380</b>	<b>9,490,793</b>
<b>Total liabilities and total equity (2)</b>	<b>34,996</b>	<b>14,296,910</b>	<b>10,852</b>	<b>14,342,758</b>	<b>11,161,074</b>	<b>25,503,832</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>(497)</b>	<b>(620,619)</b>	<b>(10,353)**</b>	<b>(631,469)</b>	<b>631,469</b>	<b>-</b>

\*Amounts linked to a one-way currency clause represent HRK 401,282 thousand.

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

16. Risk management (continued)

16.4. Market risk (continued)

16.4.2. Currency risk (continued)

Group	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
<b>Dec 31, 2014</b>						
<b>Assets</b>						
Cash on hand and due from banks	1,259	64,756	634	66,649	62,140	128,789
Deposits with other banks	-	1,220,490	-	1,220,490	10,098	1,230,588
Loans to financial institutions	-	7,749,703	-	7,749,703	5,748,498	13,498,201
Loans to other customers	8,830	4,051,064	-	4,059,894	4,252,520	8,312,414
Financial assets at fair value through profit or loss	-	1,551	-	1,551	601	2,152
Assets available for sale	13,503	526,771	-	540,274	1,964,192	2,504,466
Assets held to maturity	-	1,470	-	1,470	-	1,470
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	66,817	66,817
Non-current assets held for sale	-	-	-	-	34,227	34,227
Other assets	-	476	-	476	6,400	6,876
<b>Total assets (1)</b>	<b>23,592</b>	<b>13,616,281</b>	<b>634</b>	<b>13,640,507</b>	<b>12,145,493*</b>	<b>25,786,000</b>
<b>Liabilities</b>						
Deposits	23,987	27,722	39	51,748	131,148	182,896
Borrowings	-	10,857,919	-	10,857,919	746,901	11,604,820
Bonds payable	-	3,609,089	-	3,609,089	-	3,609,089
Other liabilities	-	8,461	12,444	20,905	937,267	958,172
<b>Total liabilities</b>	<b>23,987</b>	<b>14,503,191</b>	<b>12,483</b>	<b>14,539,661</b>	<b>1,815,316</b>	<b>16,354,977</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,893,739	6,893,739
Retained earnings and reserves	-	-	-	-	2,306,634	2,306,634
Other reserves	-	-	-	-	48,877	48,877
Net profit for the year	-	-	-	-	169,228	169,228
<b>Total equity attributable to equity holders of the parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,418,478</b>	<b>9,418,478</b>
Guarantee fund	-	12,545	-	12,545	-	12,545
<b>Total equity</b>	<b>-</b>	<b>12,545</b>	<b>-</b>	<b>12,545</b>	<b>9,418,478</b>	<b>9,431,023</b>
<b>Total liabilities and total equity (2)</b>	<b>23,987</b>	<b>14,515,736</b>	<b>12,483</b>	<b>14,552,206</b>	<b>11,233,794</b>	<b>25,786,000</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>(395)</b>	<b>(899,455)</b>	<b>(11,849)**</b>	<b>(911,699)</b>	<b>911,699</b>	<b>-</b>

\*Amounts linked to a one-way currency clause represent HRK 470,325 thousand.

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



Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.2. Currency risk (continued)**

Total assets and total liabilities and equity as of 30 June 2015 and 31 December 2014 in HRK and foreign currencies can be shown as follows:

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
<b>Jun 30, 2015</b>						
<b>Assets</b>						
Cash on hand and due from banks	15,132	427,350	499	442,981	24,585	467,566
Deposits with other banks	-	525,744	-	525,744	-	525,744
Loans to financial institutions	-	7,124,219	-	7,124,219	5,451,360	12,575,579
Loans to other customers	4,783	4,554,992	-	4,559,775	4,040,350	8,600,125
Assets available for sale	14,584	1,029,260	-	1,043,844	2,140,966	3,184,810
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	63,421	63,421
Non-current assets held for sale	-	-	-	-	34,265	34,265
Other assets	-	-	-	-	4,903	4,903
<b>Total assets (1)</b>	<b>34,499</b>	<b>13,661,565</b>	<b>499</b>	<b>13,696,563</b>	<b>11,795,974*</b>	<b>25,492,537</b>
<b>Liabilities</b>						
Deposits	34,996	53,779	42	88,817	94,680	183,497
Borrowings	-	10,721,312	-	10,721,312	746,870	11,468,182
Bonds payable	-	3,501,855	-	3,501,855	-	3,501,855
Other liabilities	-	1,145	10,709	11,854	837,767	849,621
<b>Total liabilities</b>	<b>34,996</b>	<b>14,278,091</b>	<b>10,751</b>	<b>14,323,838</b>	<b>1,679,317</b>	<b>16,003,155</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,893,739	6,893,739
Retained earnings and reserves	-	-	-	-	2,476,903	2,476,903
Other reserves	-	-	-	-	42,374	42,374
Net profit for the year	-	-	-	-	63,953	63,953
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,476,969</b>	<b>9,476,969</b>
Guarantee fund	-	12,413	-	12,413	-	12,413
<b>Total equity</b>	<b>-</b>	<b>12,413</b>	<b>-</b>	<b>12,413</b>	<b>9,476,969</b>	<b>9,489,382</b>
<b>Total liabilities and total equity (2)</b>	<b>34,996</b>	<b>14,290,504</b>	<b>10,751</b>	<b>14,336,251</b>	<b>11,156,286</b>	<b>25,492,537</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>(497)</b>	<b>(628,939)</b>	<b>(10,252)**</b>	<b>(639,688)</b>	<b>639,688</b>	<b>-</b>

\* Amounts linked to a one-way currency clause represent HRK 401,282 thousand.

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

**16. Risk management (continued)**

**16.4. Market risk (continued)**

**16.4.2. Currency risk (continued)**

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
<b>Dec 31, 2014</b>						
<b>Assets</b>						
Cash on hand and due from banks	1,259	64,756	634	66,649	62,007	128,656
Deposits with other banks	-	1,213,434	-	1,213,434	-	1,213,434
Loans to financial institutions	-	7,749,703	-	7,749,703	5,748,498	13,498,201
Loans to other customers	8,830	4,051,064	-	4,059,894	4,252,520	8,312,414
Assets available for sale	13,503	517,573	-	531,076	1,952,058	2,483,134
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	66,533	66,533
Non-current assets held for sale	-	-	-	-	34,227	34,227
Other assets	-	-	-	-	4,329	4,329
<b>Total assets (1)</b>	<b>23,592</b>	<b>13,596,530</b>	<b>634</b>	<b>13,620,756</b>	<b>12,156,296*</b>	<b>25,777,052</b>
<b>Liabilities</b>						
Deposits	23,987	27,722	39	51,748	131,148	182,896
Borrowings	-	10,857,919	-	10,857,919	746,901	11,604,820
Bonds payable	-	3,609,089	-	3,609,089	-	3,609,089
Other liabilities	-	3,089	12,407	15,496	934,621	950,117
<b>Total liabilities</b>	<b>23,987</b>	<b>14,497,819</b>	<b>12,446</b>	<b>14,534,252</b>	<b>1,812,670</b>	<b>16,346,922</b>
<b>Equity</b>						
Founder's capital	-	-	-	-	6,893,739	6,893,739
Retained earnings and reserves	-	-	-	-	2,308,560	2,308,560
Other reserves	-	-	-	-	46,943	46,943
Net profit for the year	-	-	-	-	168,343	168,343
<b>Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,417,585</b>	<b>9,417,585</b>
Guarantee fund	-	12,545	-	12,545	-	12,545
<b>Total equity</b>	<b>-</b>	<b>12,545</b>	<b>-</b>	<b>12,545</b>	<b>9,417,585</b>	<b>9,430,130</b>
<b>Total liabilities and total equity (2)</b>	<b>23,987</b>	<b>14,510,364</b>	<b>12,446</b>	<b>14,546,797</b>	<b>11,230,255</b>	<b>25,777,052</b>
<b>Net assets/liabilities (1) – (2)</b>	<b>(395)</b>	<b>(913,834)</b>	<b>(11,812)**</b>	<b>(926,041)</b>	<b>926,041</b>	<b>-</b>

\*Amounts linked to a one-way currency clause represent HRK 470,325 thousand.

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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**16. Risk management (continued)**

**16.5. Operational risk**

The Bank has established a framework for operational risk management that is in all material respects 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 and 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.

**16.6. 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. The Risk Management organisational unit has determined, through the internal documents the management of this risk and the procedures for the outsourcing of activities, the rules for the management of relations with the service providers and the obligation to reduce the risk to the lowest level possible. The Risk Management organisational unit is in charge of monitoring this risk.

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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

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

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

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

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

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

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

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

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

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

The estimated fair value of deposits 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 are presented within other liabilities are taken into account in estimating fair value. The fair value of HRK loans with one-way currency clause is assessed as described under the "Foreign currency transactions and foreign currency clause" paragraph.

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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

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

The fair value of bonds issued by HBOR on 30 June 2015 is stated in Note 13 and is presented by using level 2 inputs that are observable at Bloomberg service on the basis of mid-rate of Bloomberg Generic (BGN) prices.

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

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

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

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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

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

Group	Jun 30, 2015			Dec 31, 2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Financial assets at fair value through profit or loss:</b>						
Shares in investment funds recognised at fair value through profit or loss	-	17,483	-	-	2,152	-
<b>Total financial assets at fair value through profit or loss</b>	<b>-</b>	<b>17,483</b>	<b>-</b>	<b>-</b>	<b>2,152</b>	<b>-</b>
<b>Assets available for sale:</b>						
<b>Debt instruments:</b>						
<b>Listed debt instruments:</b>						
Bonds of the Ministry of Finance of the Republic of Croatia	438,920	-	-	396,670	-	-
Financial institution bonds	530	-	-	522	-	-
Corporate bonds	392	-	-	395	-	-
Treasury bills of the Ministry of Finance of the Republic of Croatia	1,962,308	-	-	1,347,756	-	-
Accrued interest	10,374	-	-	8,435	-	-
<b>Total debt instruments</b>	<b>2,412,524</b>	<b>-</b>	<b>-</b>	<b>1,753,778</b>	<b>-</b>	<b>-</b>
<b>Equity instruments:</b>						
Investment in shares of foreign companies	-	26	-	-	26	-
Investment in financial institutions shares	-	161	-	-	161	-
Shares of foreign financial institutions – EIF	-	24,246	-	-	23,477	-
Corporate shares	-	-	-	-	-	-
<b>Total equity instruments</b>	<b>-</b>	<b>24,433</b>	<b>-</b>	<b>-</b>	<b>23,664</b>	<b>-</b>
<b>Investments in investment funds:</b>						
Shares classified as assets available for sale	-	768,024	-	-	727,024	-
<b>Total investments in investment funds</b>	<b>-</b>	<b>768,024</b>	<b>-</b>	<b>-</b>	<b>727,024</b>	<b>-</b>
<b>Total assets available for sale</b>	<b>2,412,524</b>	<b>792,457</b>	<b>-</b>	<b>1,753,778</b>	<b>750,688</b>	<b>-</b>

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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

Bank	Jun 30, 2015			Dec 31, 2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<i>Assets available for sale:</i>						
<i>Debt instruments:</i>						
<i>Listed debt instruments:</i>						
Bonds of the Ministry of Finance of the Republic of Croatia	421,070	-	-	377,763	-	-
Treasury bills of the Ministry of finance of the Republic of Croatia	1,962,308	-	-	1,347,756	-	-
Accrued interest	10,094	-	-	8,130	-	-
<b>Total debt instruments</b>	<b>2,393,472</b>	<b>-</b>	<b>-</b>	<b>1,733,649</b>	<b>-</b>	<b>-</b>
<i>Equity instruments:</i>						
Investment in shares of foreign companies	-	26	-	-	26	-
Investment in financial institutions shares	-	161	-	-	161	-
Shares of foreign financial institutions – EIF	-	24,246	-	-	23,477	-
Corporate shares	-	-	-	-	-	-
<b>Total equity instruments</b>	<b>-</b>	<b>24,433</b>	<b>-</b>	<b>-</b>	<b>23,664</b>	<b>-</b>
<i>Investments in investment funds:</i>						
Shares classified as assets available for sale	-	766,905	-	-	725,821	-
<b>Total investments in investment funds</b>	<b>-</b>	<b>766,905</b>	<b>-</b>	<b>-</b>	<b>725,821</b>	<b>-</b>
<b>Total assets available for sale</b>	<b>2,393,472</b>	<b>791,338</b>	<b>-</b>	<b>1,733,649</b>	<b>749,485</b>	<b>-</b>

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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

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

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

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



Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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

Jun 30, 2015	Banking activities	Insurance activities	Other activities	Unallocated	Total
Net interest income	191,552	662	-	-	192,214
Net fee income	7,789	667	432	-	8,888
Net income/(expenses) from financial operations	8,914	(5)	(8)	-	8,901
Net premiums earned	-	2,810	-	-	2,810
Other income	2,494	39	141	(151)	2,523
<b>Income from operating activities</b>	<b>210,749</b>	<b>4,173</b>	<b>565</b>	<b>(151)</b>	<b>215,336</b>
Operating costs	(63,424)	(2,455)	(592)	151	(66,320)
Impairment loss and provisions	(83,372)	19	4	-	(83,349)
Expenses for insured cases	-	(479)	-	-	(479)
Net change in provisions	-	(605)	-	-	(605)
Other expenses	-	(93)	-	-	(93)
<b>Operating expenses</b>	<b>(146,796)</b>	<b>(3,613)</b>	<b>(588)</b>	<b>151</b>	<b>(150,846)</b>
<b>Profit/(loss) before income tax</b>	<b>63,953</b>	<b>560</b>	<b>(23)</b>	<b>-</b>	<b>64,490</b>
Income tax	-	-	-	-	-
<b>Profit/(loss) for the year</b>	<b>63,953</b>	<b>560</b>	<b>(23)</b>	<b>-</b>	<b>64,490</b>
Assets of segment	25,492,537	47,445	2,003	(38,153)	25,503,832
<b>Total assets</b>	<b>25,492,537</b>	<b>47,445</b>	<b>2,003</b>	<b>(38,153)</b>	<b>25,503,832</b>
Liabilities of segment	16,003,155	9,793	1,616	(1,525)	16,013,039
Total equity	9,489,382	152	87	1,172	9,490,793
<b>Total liabilities and total equity</b>	<b>25,492,537</b>	<b>9,945</b>	<b>1,703</b>	<b>(353)</b>	<b>25,503,832</b>

Intra-group transactions are presented under "Unallocated".

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

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

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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

<b>Jun 30, 2014</b>	<b>Banking activities</b>	<b>Insurance activities</b>	<b>Other activities</b>	<b>Unallocated</b>	<b>Total</b>
Net interest income	217,448	756	-	-	218,204
Net fee income	4,580	603	406	(5)	5,584
Net income/(expenses) from financial operations	(3,256)	(97)	4	-	(3,349)
Net premiums earned	-	2,184	-	-	2,184
Other income	2,367	20	143	(153)	2,377
<b>Income from operating activities</b>	<b>221,139</b>	<b>3,466</b>	<b>553</b>	<b>(158)</b>	<b>225,000</b>
Operating costs	(87,574)	(2,480)	(572)	158	(90,468)
Impairment loss and provisions	(38,900)	92	10	-	(38,798)
Expenses for insured cases	-	(449)	-	-	(449)
Net change in provisions	-	(494)	-	-	(494)
Other expenses	-	(42)	-	-	(42)
<b>Operating expenses</b>	<b>(126,474)</b>	<b>(3,373)</b>	<b>(562)</b>	<b>158</b>	<b>(130,251)</b>
<b>Profit/(loss) before income tax</b>	<b>94,665</b>	<b>93</b>	<b>(9)</b>	<b>-</b>	<b>94,749</b>
Income tax	-	-	-	-	-
<b>Profit/(loss) for the year</b>	<b>94,665</b>	<b>93</b>	<b>(9)</b>	<b>-</b>	<b>94,749</b>
<b>Dec 31, 2014</b>					
Assets of segment	25,777,052	45,030	2,078	(38,160)	25,786,000
<b>Total assets</b>	<b>25,777,052</b>	<b>45,030</b>	<b>2,078</b>	<b>(38,160)</b>	<b>25,786,000</b>
Liabilities of segment	16,346,922	7,919	168	(32)	16,354,977
Total equity	9,430,130	(389)	110	1,172	9,431,023
<b>Total liabilities and total equity</b>	<b>25,777,052</b>	<b>7,530</b>	<b>278</b>	<b>1,140</b>	<b>25,786,000</b>

Intra-group transactions are presented under "Unallocated".

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

## 19. Capital management

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

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

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

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

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

- At 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 differ significantly from international banking practice.

	Group		Bank	
	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
Original own funds – Tier 1	9,435,132	9,371,527	9,434,595	9,370,642
Additional own funds – Tier 2	281,432	287,980	281,432	287,980
<b>Total own funds</b>	<b>9,716,564</b>	<b>9,659,507</b>	<b>9,716,027</b>	<b>9,658,622</b>
Risk weighted assets	12,219,463	11,726,372	12,246,874	11,755,029
Capital requirements for currency risk	106,334	108,376	91,609	88,625
<b>Total capital requirements</b>	<b>12,325,797</b>	<b>11,834,748</b>	<b>12,338,483</b>	<b>11,843,654</b>
	%	%	%	%
<b>Capital ratio (Tier 1)</b>	<b>76.55</b>	<b>79.19</b>	<b>76.46</b>	<b>79.12</b>
<b>Capital adequacy ratio</b>	<b>78.83</b>	<b>81.62</b>	<b>78.75</b>	<b>81.55</b>
	HRK '000	HRK '000	HRK '000	HRK '000
<b>Own funds needed for ensuring capital adequacy according to regulatory requirements</b>	<b>986,064</b>	<b>946,780</b>	<b>987,079</b>	<b>947,492</b>

Minimum capital adequacy ratio as of the reporting date, i.e. 30<sup>th</sup> June 2015 was 8% (31 December 2014: 8%).

Notes to the Consolidated Interim Condensed Financial Statements contain a summary of significant accounting policies and other explanatory information for the period 1 January – 30 June 2015 (continued)

(All amounts are expressed in HRK thousand)

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**19. Capital management (continued)**

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

The Managing Board of the Group does not expect any adverse effects on the level of capital adequacy as a result of application of the new regulations for credit institutions, taking into account that the Bank's capital adequacy ratio as of 30 June 2015 was 10 times higher than the prescribed one. This was primarily due to the model of operation and its orientation to the lending operations.

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

	Jun 30, 2015	Jun 30, 2014
<b>Premium earned</b>		
Gross premium written	5,836	4,956
Premium impairment allowance originated and reserved on collection	20	20
Gross outward reinsurance premium	(2,717)	(2,404)
<b>Net premium written</b>	<b>3,139</b>	<b>2,572</b>
Changes in the gross unearned premium reserve	(246)	(194)
Changes in the gross unearned premium reserve, reinsurer's share	(63)	(174)
<b>Net premium earned</b>	<b>2,830</b>	<b>2,204</b>
Fee and commission income	1,099	1,009
Net investment income	644	656
Other operating income	29	10
<b>Net income</b>	<b>4,602</b>	<b>3,879</b>
Gross expense for returned premiums	(191)	(92)
Reinsurer's share	98	50
Gross reserve for returned premiums	-	-
Reinsurer's share	-	-
<b>Net expense and reserve for returned premiums</b>	<b>(93)</b>	<b>(42)</b>
Claims incurred	(886)	(1,033)
Claims incurred, reinsurer's share	407	584
Change in the claims provision	(741)	(303)
Change in the claims provision, reinsurer's share	136	(191)
<b>Net claims incurred</b>	<b>(1,084)</b>	<b>(943)</b>
Marketing and provision expenses	(369)	(262)
Administrative expenses	(2,439)	(2,514)
Other operating expenses	(85)	(41)
Net exchange differences other than those on financial instruments	5	7
<b>Profit before income tax</b>	<b>537</b>	<b>84</b>
Income tax	-	-
<b>Profit/(loss) for the year</b>	<b>537</b>	<b>84</b>
<b>Other comprehensive income</b>		
<b>Items that are not transferred subsequently to profit or loss:</b>		
Deferred tax – adjustment for previous period	-	(17)
<b>Total items that are not transferred subsequently to profit or loss</b>	<b>-</b>	<b>(17)</b>
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Gains on revaluation of financial assets available for sale	504	716
Decrease in the fair value of financial assets available for sale	(383)	(43)
Transfer of realized gains on asset available for sale to statement of profit or loss	(145)	(5)
Deferred tax	5	(133)
<b>Total items that may be reclassified subsequently to profit or loss:</b>	<b>(19)</b>	<b>535</b>
<b>Other comprehensive income after income tax</b>	<b>(19)</b>	<b>518</b>
<b>Total comprehensive income after income tax</b>	<b>518</b>	<b>602</b>
<b>Attributable to:</b>		
Equity holders of the parent	518	602

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

(All amounts are expressed in HRK thousand)

	Jun 30, 2015	Dec 31, 2014
<b>Assets</b>		
<b>Non-current assets</b>		
Property and equipment	148	193
Intangible assets	45	94
Held to maturity investments	1,447	1,470
Deferred tax	453	383
<b>Total non-current assets</b>	<b>2,093</b>	<b>2,140</b>
<b>Current assets</b>		
Investments available for sale	20,171	21,332
Investments at fair value through profit or loss	17,483	2,152
Deposits with banks	5,036	17,154
Receivables from insurance operations	1,849	1,935
Other receivables	244	230
Cash and cash equivalents	547	133
<b>Total current assets</b>	<b>45,330</b>	<b>42,936</b>
<b>Total assets</b>	<b>47,423</b>	<b>45,076</b>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Share capital	37,500	37,500
Accumulated losses	(1,184)	(2,068)
Other reserves	687	706
Profit for the year	537	884
<b>Total equity</b>	<b>37,540</b>	<b>37,022</b>
<b>Technical provisions</b>		
Gross technical provisions	11,884	10,897
Technical provisions, reinsurer's share	(6,164)	(6,091)
	<b>5,720</b>	<b>4,806</b>
<b>Current liabilities</b>		
Liabilities from insurance operations	2,551	1,663
Other liabilities	1,612	1,585
<b>Total liabilities</b>	<b>4,163</b>	<b>3,248</b>
<b>Total equity and liabilities</b>	<b>47,423</b>	<b>45,076</b>

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

	Jun 30, 2015	Jun 30, 2014
<b>Operating activities</b>		
Profit before income tax	537	84
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>		
Depreciation	94	79
Impairment loss and provisions	(24)	(102)
Income tax	-	-
Accrued interest	172	454
<i>Operating profit before working capital changes</i>	<i>779</i>	<i>515</i>
<b>Changes in operating assets and liabilities:</b>		
Net decrease in deposits with other banks	11,920	6,498
Net realized (gain) on assets available for sale	(145)	(5)
Decrease of discount in assets available for sale and assets held to maturity	71	28
Net gain/(losses) on financial assets at fair value through profit or loss	(19)	(11)
Premium receivables	106	454
Net decrease/(increase) in other assets	(76)	(305)
Net decrease of assets and liabilities from insurance operations	888	715
Net increase in technical provisions	914	862
Net (decrease) in other liabilities	27	136
<b>Net cash provided by operating activities</b>	<b>14,465</b>	<b>8,887</b>
<b>Investment activities</b>		
Net (purchase) of financial assets at fair value through profit or loss	(18,072)	(6,170)
Net sale of financial assets at fair value through profit or loss	2,742	3,106
Net (purchase) of assets available for sale	(1,125)	(5,986)
Net sale of assets available for sale	2,221	75
(Purchase) of assets held to maturity	-	(965)
Collection of assets held to maturity when due	-	1,071
Net (purchase) of property, plant and equipment and intangible assets	-	(13)
<b>Net cash (used in) investment activities</b>	<b>(14,234)</b>	<b>(8,882)</b>
<b>Effect of foreign currency to cash and cash equivalents</b>		
Net foreign exchange	183	113
<b>Net effect</b>	<b>183</b>	<b>113</b>
Net increase in cash and cash equivalents	414	118
Balance as of 1 January	133	139
Net increase in cash	414	118
<b>Balance as of 30 June</b>	<b>547</b>	<b>257</b>

Appendix - financial performance of the HKO Group  
Statement of Changes in Equity  
for the period 1 January – 30 June 2015 (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
<b>Balance as of 1 January 2014</b>	<b>37,500</b>	<b>(2,155)</b>	<b>171</b>	<b>104</b>	<b>35,620</b>	<b>35,620</b>
Profit for the year	-	-	-	84	84	84
Other comprehensive income	-	(17)	535	-	518	518
Total comprehensive income	-	(17)	535	84	602	602
Transfer of profit 2013 to retained earnings	-	104	-	(104)	-	-
<b>Balance as of 30 June 2014</b>	<b>37,500</b>	<b>(2,068)</b>	<b>706</b>	<b>84</b>	<b>36,222</b>	<b>36,222</b>
<b>Balance as of 1 January 2015</b>	<b>37,500</b>	<b>(2,068)</b>	<b>706</b>	<b>884</b>	<b>37,022</b>	<b>37,022</b>
Profit for the year	-	-	-	537	537	537
Other comprehensive income	-	-	(19)	-	(19)	(19)
Total comprehensive income	-	-	(19)	537	518	518
Transfer of profit 2014 to retained earnings	-	884	-	(884)	-	-
<b>Balance as of 30 June 2015</b>	<b>37,500</b>	<b>(1,184)</b>	<b>687</b>	<b>537</b>	<b>37,540</b>	<b>37,540</b>