

CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Unaudited Condensed Separate and Consolidated Interim Financial Statements for the Period 1 January – 31 March 2019

Zagreb, May 2019

This version of the Condensed Separate and Consolidated Interim Financial Statements is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the Condensed Separate and Consolidated Interim Financial Statements takes precedence over translation.

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Responsibilities of the Management and Supervisory Boards for the preparation and approval of the condensed separate and consolidated interim financial statements for the period 1 January – 31 March 2019

We confirm that, to the best of our knowledge, the condensed separate interim financial statements of the Croatian Bank for Reconstruction and Development (“the Bank” or “HBOR”) and condensed consolidated interim financial statements of the Croatian Bank for Reconstruction and Development Group (“the Group”) set out on pages 4 to 124 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.

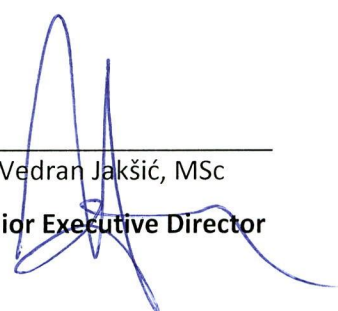
The Management Board has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and the Group and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making judgements and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its Condensed interim financial statements which includes the condensed separate and consolidated interim financial statements. If the Supervisory Board approves the Condensed interim financial statements it is deemed confirmed by the Management Board and Supervisory Board.

The Condensed separate and consolidated interim financial statements on pages 4 to 124 have been approved by the Management Board on 31 May 2019 as confirmed by the signatures below.

For and on behalf of Croatian Bank for Reconstruction and Development:

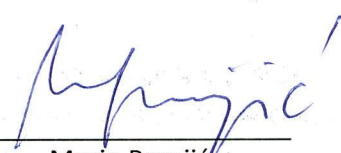


Vedran Jakšić, MSc
Senior Executive Director



Tamara Perko, MSc
President of the Management Board





Marin Pranjić
Accounting Division Executive Director



Hrvoje Čuvalo, MSc
Member of the Management Board

Zagreb, 31 May 2019



Condensed Consolidated Interim Financial Statements of the Group
Income Statement
for the period 1 January – 31 March

(All amounts are expressed in HRK thousand)

| | Notes | 2019 HRK '000 | 2018 HRK '000 |
|--|-------|------------------|------------------|
| Interest income calculated using the effective interest method | 5 | 163,300 | 190,882 |
| Interest expense | 6 | (81,762) | (84,403) |
| Net interest income | | 81,538 | 106,479 |
| Fee and commission income | | 7,784 | 12,719 |
| Fee and commission expense | | (371) | (464) |
| Net fee and commission income | | 7,413 | 12,255 |
| Net gains/(losses) on financial operations | | 3,548 | 13,100 |
| Other income | | 2,753 | 2,863 |
| | | 95,252 | 134,697 |
| Employee expenses | 7 a) | (23,381) | (22,211) |
| Depreciation and amortization | 7 b) | (1,867) | (1,737) |
| Other expenses | 7 c) | (12,345) | (9,569) |
| Impairment loss and provisions | 8 | (36,015) | (26,186) |
| Profit before income tax | | 21,644 | 74,994 |
| Income tax | | (33) | - |
| Profit for the period | | 21,611 | 74,994 |
| Attributable to: | | | |
| Owner of the Bank | | 21,611 | 74,994 |

The accompanying accounting policies and notes are an integral part of these financial statements.

Condensed Consolidated Interim Financial Statements of the Group
Statement of Profit or Loss and Other Comprehensive Income
for the period 1 January – 31 March

(All amounts are expressed in HRK thousand)

| | 2019 | 2018 |
|--|---------------|---------------|
| | HRK '000 | HRK '000 |
| Profit for the period | 21,611 | 74,994 |
| Other comprehensive income | | |
| Items that are not transferred subsequently to profit or loss: | | |
| Deferred tax-adjustment for previous period | - | (16) |
| Total items that are not transferred subsequently to profit or loss | - | (16) |
| Items that may be reclassified subsequently to profit or loss: | | |
| Net changes in financial assets at fair value through other comprehensive income | 10,941 | 3,985 |
| Net foreign exchange on equity instruments | 26 | (277) |
| Deferred tax – other comprehensive income | (116) | (55) |
| Total items that may be reclassified subsequently to profit or loss | 10,851 | 3,653 |
| Other comprehensive income after income tax | 10,851 | 3,637 |
| Total comprehensive income after income tax | 32,462 | 78,631 |
| Attributable to: | | |
| Owner of the Bank | 32,462 | 78,631 |

The accompanying accounting policies and notes are an integral part of these financial statements.

Condensed Consolidated Interim Financial Statements of the Group
Statement of Financial Position
as of

(All amounts are expressed in HRK thousand)

| | Notes | Mar 31, 2019 HRK '000 | Dec 31, 2018 HRK '000 |
|---|-------|-----------------------------|-----------------------------|
| Imovina | | | |
| Cash on hand and current accounts with banks | 9 | 555,443 | 944,417 |
| Deposits with other banks | 10 | 246,684 | 261,925 |
| Loans to financial institutions | 11 | 10,285,907 | 10,234,988 |
| Loans to other customers | 12 | 13,227,739 | 12,510,686 |
| Financial assets at fair value through profit or loss | 13 | 337,604 | 336,266 |
| Financial assets at fair value through other comprehensive income | 14 | 1,944,455 | 2,829,470 |
| Debt instruments at amortised cost | 15 | 1,365 | 1,363 |
| Investments in associates | | - | - |
| Property, plant and equipment and intangible assets | | 49,685 | 50,832 |
| Foreclosed assets | 16 | 25,788 | 25,330 |
| Other assets | 17 | 29,270 | 23,704 |
| Total assets | | 26,703,940 | 27,218,981 |
| Liabilities | | | |
| Deposits from customers | | 327,115 | 429,096 |
| Borrowings | 18 | 14,521,234 | 14,877,987 |
| Debt securities issued | 19 | 1,169,153 | 1,150,557 |
| Provisions for guarantees, commitments and other liabilities | 20 | 229,297 | 321,491 |
| Other liabilities | 21 | 363,428 | 378,743 |
| Total liabilities | | 16,610,227 | 17,157,874 |
| Equity | | | |
| Founder's capital | | 7,059,632 | 7,059,632 |
| Retained earnings and reserves | | 2,921,654 | 2,717,118 |
| Other reserves | | 78,658 | 67,474 |
| Profit for the period | | 21,611 | 204,737 |
| Guarantee fund | | 12,158 | 12,146 |
| Total equity | | 10,093,713 | 10,061,107 |
| Total liabilities and total equity | | 26,703,940 | 27,218,981 |

The accompanying accounting policies and notes are an integral part of these financial statements.

Condensed Consolidated Interim Financial Statements of the Group
Statement of Cash Flows
for the period 1 January - 31 March

(All amounts are expressed in HRK thousand)

| | Notes | 2019 HRK '000 | 2018 HRK '000 |
|--|----------|------------------|------------------|
| Operating activities | | | |
| Profit before income tax | | 21,644 | 74,994 |
| <i>Adjustments to reconcile to net cash from and used in operating activities:</i> | | | |
| Income tax | | 33 | - |
| Depreciation and amortization | | 1,867 | 1,737 |
| Impairment loss and provisions | | 36,015 | 26,186 |
| Accrued interest | | 6,739 | 32,882 |
| Deferred fees | | 756 | (12,577) |
| Other changes in assets at fair value | | (688) | 8,920 |
| <i>Operating profit before working capital changes</i> | | 66,366 | 132,142 |
| <i>Changes in operating assets and liabilities:</i> | | | |
| Net decrease in deposits with other banks, before impairment | | 15,445 | 14,997 |
| Net (increase)/decrease in loans to financial institutions, before impairment | | (31,788) | 242,001 |
| Net (increase) in loans to other customers, before loss impairment | | (839,846) | (676,194) |
| Decrease of discount in debt securities issued | | 916 | 1,024 |
| Net (increase) in foreclosed assets | | (553) | (1,211) |
| Net (increase) in other assets, before impairment | | (5,876) | (87,926) |
| Net (decrease) in deposits from banks and companies | | (101,981) | (192,833) |
| Net (decrease)/increase in other liabilities | | (15,807) | 47,810 |
| Net cash (used in) operating activities | | (913,124) | (520,190) |
| Investment activities | | | |
| Purchase of financial assets at fair value through profit or loss | | (87) | (1,786) |
| Sale of financial assets at fair value through profit or loss | | - | 25,000 |
| Purchase of financial assets at fair value through other comprehensive income | | (372,696) | (1,028,293) |
| Sale of financial assets at fair value through other comprehensive income | | 1,266,397 | 655,000 |
| Sale of debt instruments at amortised cost | | 2 | - |
| (Purchase) of property, plant and equipment and intangible assets | | (560) | (635) |
| Net cash provided from/(used in) investment activities | | 893,056 | (350,714) |
| Financing activities | | | |
| Increase in founder's capital | | - | - |
| Increase in borrowings – withdrawn funds | | 449,129 | 638,591 |
| Decrease in borrowings – repayments of principal | | (848,619) | (340,802) |
| Other | | 2 | (22) |
| Net cash (used in)/provided from financing activities | | (399,488) | 297,767 |
| Effect of foreign currency to cash and cash equivalents | | | |
| Net foreign exchange | | 29,881 | (189,248) |
| Net effect | | 29,881 | (189,248) |
| Net (decrease)/increase in cash and cash equivalents | | | |
| Balance as of 1 January, before impairment | | 946,085 | 1,404,538 |
| Net (decrease) in cash and cash equivalents | | (389,675) | (762,385) |
| Balance as of 31 March before impairment | 9 | 556,410 | 642,153 |
| Additional note - Operational cash flows | | | |
| Interest paid | | 49,864 | 58,278 |
| Interest received | | 121,811 | 162,577 |

The accompanying accounting policies and notes are an integral part of these financial statements.

Condensed Consolidated Interim Financial Statements of the Group
Statement of Changes in Equity
for the period 1 January - 31 March

(All amounts are expressed in HRK thousand)

| | Founder's capital HRK '000 | Retained earnings and reserves HRK '000 | Other reserves HRK '000 | Net profit for the period HRK '000 | Guarantee fund HRK '000 | Total HRK '000 |
|---|----------------------------------|--|-------------------------------|---|-------------------------------|-------------------|
| Balance as at 1 January 2018 | 7,009,632 | 2,554,917 | 70,717 | 162,201 | 12,303 | 9,809,770 |
| Profit for the period | - | - | - | 74,994 | - | 74,994 |
| Other comprehensive income | - | - | 3,637 | - | - | 3,637 |
| Total comprehensive income | - | - | 3,637 | 74,994 | - | 78,631 |
| Net foreign exchange – | | | | | | |
| Guarantee fund | - | - | - | - | (134) | (134) |
| Transfer of profit 2017 to retained earnings | - | 162,201 | - | (162,201) | - | - |
| Balance as at 31 March 2018 | 7,009,632 | 2,717,111 | 74,354 | 74,994 | 12,169 | 9,888,267 |
| Balance as at 1 January 2019 | 7,059,632 | 2,717,118 | 67,474 | 204,737 | 12,146 | 10,061,107 |
| Profit for the period | - | - | - | 21,611 | - | 21,611 |
| Other comprehensive income | - | - | 10,851 | - | - | 10,851 |
| Total comprehensive income | - | - | 10,851 | 21,611 | - | 32,462 |
| Net foreign exchange – | | | | | | |
| Guarantee fund | - | - | - | - | 12 | 12 |
| Transfer of profit 2018 to retained earnings | - | 204,737 | - | (204,737) | - | - |
| Other adjustment | - | (201) | 333 | - | - | 132 |
| Balance as at 31 March 2019 | 7,059,632 | 2,921,654 | 78,658 | 21,611 | 12,158 | 10,093,713 |

The accompanying accounting policies and notes are an integral part of these financial statements.

Condensed Separate Interim Financial Statements of the Bank
Income Statement
for the period 1 January - 31 March
(All amounts are expressed in HRK thousand)

| | Notes | 2019 HRK '000 | 2018 HRK '000 |
|--|-------|------------------|------------------|
| Interest income calculated using the effective interest method | 5 | 162,971 | 190,493 |
| Interest expense | 6 | (81,760) | (84,403) |
| Net interest income | | 81,211 | 106,090 |
| Fee and commission income | | 7,087 | 12,213 |
| Fee and commission expense | | (371) | (464) |
| Net fee and commission income | | 6,716 | 11,749 |
| Net gains/(losses) on financial operations | | 3,415 | 13,216 |
| Other income | | 1,260 | 1,235 |
| | | 92,602 | 132,290 |
| Employee expenses | 7 a) | (22,492) | (21,436) |
| Depreciation and amortization | 7 b) | (1,859) | (1,728) |
| Other expenses | 7 c) | (10,936) | (8,609) |
| Impairment loss and provisions | 8 | (36,052) | (26,127) |
| Profit before income tax | | 21,263 | 74,390 |
| Income tax | | - | - |
| Profit for the period | | 21,263 | 74,390 |
| Attributable to: | | | |
| Owner of the Bank | | 21,263 | 74,390 |

The accompanying accounting policies and notes are an integral part of these financial statements.

Condensed Separate Interim Financial Statements of the Bank
Statement of Profit or Loss and Other Comprehensive Income
for the period 1 January - 31 March

(All amounts are expressed in HRK thousand)

| | 2019 HRK '000 | 2018 HRK '000 |
|--|------------------|------------------|
| Profit for the year | 21,263 | 74,390 |
| Other comprehensive income | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Net changes in financial assets at fair value through other comprehensive income | 10,294 | 3,684 |
| Net foreign exchange on equity instruments | 26 | (277) |
| Total items that may be reclassified subsequently to profit or loss | 10,320 | 3,407 |
| Other comprehensive income after income tax | 10,320 | 3,407 |
| Total comprehensive income after income tax | 31,583 | 77,797 |
| Attributable to: | | |
| Owner of the Bank | 31,583 | 77,797 |

The accompanying accounting policies and notes are an integral part of these financial statements.

Condensed Separate Interim Financial Statements of the Bank
Statement of Financial Position
as of

(All amounts are expressed in HRK thousand)

| | Notes | Mar 31, 2019 HRK '000 | Dec 31, 2018 HRK '000 |
|---|-------|-----------------------------|-----------------------------|
| Assets | | | |
| Cash on hand and current accounts with banks | 9 | 551,366 | 941,071 |
| Deposits with other banks | 10 | 246,684 | 261,925 |
| Loans to financial institutions | 11 | 10,285,907 | 10,234,988 |
| Loans to other customers | 12 | 13,227,739 | 12,510,686 |
| Financial assets at fair value through profit or loss | 13 | 332,019 | 330,803 |
| Financial assets at fair value through other comprehensive income | 14 | 1,906,607 | 2,792,072 |
| Investments in subsidiaries | | 36,124 | 36,124 |
| Investments in associates | | - | - |
| Property, plant and equipment and intangible assets | | 49,515 | 50,764 |
| Foreclosed assets | 16 | 25,788 | 25,330 |
| Other assets | 17 | 20,828 | 15,164 |
| Total assets | | 26,682,577 | 27,198,927 |
| Liabilities | | | |
| Deposits from customers | | 327,115 | 429,096 |
| Borrowings | 18 | 14,521,234 | 14,877,987 |
| Debt securities issued | 19 | 1,169,153 | 1,150,557 |
| Provisions for guarantees, commitments and other liabilities | 20 | 229,167 | 321,361 |
| Other liabilities | 21 | 350,301 | 365,914 |
| Total liabilities | | 16,596,970 | 17,144,915 |
| Equity | | | |
| Founder's capital | | 7,059,632 | 7,059,632 |
| Retained earnings and reserves | | 2,919,356 | 2,715,028 |
| Other reserves | | 73,198 | 62,878 |
| Profit for the period | | 21,263 | 204,328 |
| Guarantee fund | | 12,158 | 12,146 |
| Total equity | | 10,085,607 | 10,054,012 |
| Total liabilities and total equity | | 26,682,577 | 27,198,927 |

The accompanying accounting policies and notes are an integral part of these financial statements.

Condensed Separate Interim Financial Statements of the Bank
Statement of Cash Flows
for the period 1 January - 31 March

(All amounts are expressed in HRK thousand)

| | Notes | 2019 HRK '000 | 2018 HRK '000 |
|--|-------|------------------|------------------|
| Operating activities | | | |
| Profit before income tax | | 21,263 | 74,390 |
| <i>Adjustments to reconcile to net cash from and used in operating activities:</i> | | | |
| Depreciation and amortization | | 1,859 | 1,728 |
| Impairment loss and provisions | | 36,052 | 26,127 |
| Accrued interest | | 6,591 | 32,712 |
| Deferred fees | | 756 | (12,577) |
| Other changes in assets at fair value | | (1,207) | 1,883 |
| <i>Operating profit before working capital changes</i> | | 65,314 | 124,263 |
| <i>Changes in operating assets and liabilities:</i> | | | |
| Net decrease in deposits with other banks, before impairment | | 15,445 | 14,990 |
| Net (increase)/decrease in loans to financial institutions, before impairment | | (31,788) | 243,718 |
| Net (increase) in loans to other customers, before impairment | | (839,846) | (678,595) |
| Decrease of discount in debt securities issued | | 916 | 962 |
| Net (increase) in foreclosed assets | | (553) | (37) |
| Net (increase) in other assets, before impairment | | (5,876) | (87,607) |
| Net (decrease) in deposits from banks and companies | | (101,981) | (192,833) |
| Net (decrease)/increase in other liabilities | | (15,613) | 47,717 |
| Net cash (used in) from operating activities | | (913,982) | (527,422) |
| Investment activities | | | |
| Purchase of financial assets fair value through profit or loss | | (87) | (286) |
| Sale of financial assets at fair value through profit or loss | | - | 25,000 |
| Purchase of financial assets fair value through other comprehensive income | | (372,696) | (1,028,293) |
| Sale of financial assets fair value through other comprehensive income | | 1,266,397 | 655,000 |
| (Purchase) of property, plant and equipment and intangible assets | | (449) | (574) |
| Net cash provided from/(used in) investment activities | | 893,165 | (349,153) |
| Financing activities | | | |
| Increase in borrowings – withdrawn funds | | 449,129 | 638,591 |
| Decrease in borrowings – repayments of principle | | (848,619) | (340,802) |
| Other | | 2 | 186 |
| Net cash (used in)/provided from financing activities | | (399,488) | 297,975 |
| Effect of foreign currency to cash and cash equivalents | | | |
| Net foreign exchange | | 29,898 | (182,849) |
| Net effect | | 29,898 | (182,849) |
| Net (decrease)/increase in cash and cash equivalents | | | |
| Balance as of 1 January, before impairment | | 942,722 | 1,402,004 |
| Net (decrease) in cash and cash equivalents | | (390,407) | (761,449) |
| Balance as at 31 March, before impairment | 9 | 552,315 | 640,555 |
| Additional note – operating activities | | | |
| Interest paid | | 49,850 | 58,278 |
| Interest received | | 121,302 | 161,953 |

The accompanying accounting policies and notes are an integral part of these financial statements,

Condensed Separate Interim Financial Statements of the Bank
Statement of Changes in Equity
for the period 1 January - 31 March

(All amounts are expressed in HRK thousand)

| | Founder's capital | Retained earnings and reserves | Other reserves | Net profit for the period | Guarantee fund | Total equity |
|--|----------------------|---|-------------------|---------------------------------|-------------------|-------------------|
| Balance as at 1 January 2018 | 7,009,632 | 2,554,245 | 66,207 | 160,783 | 12,303 | 9,803,170 |
| Profit for the period | - | - | - | 74,390 | - | 74,390 |
| Other comprehensive income | - | - | 3,407 | - | - | 3,407 |
| Total comprehensive income | - | - | 3,407 | 74,390 | - | 77,797 |
| Net foreign exchange – Guarantee fund | | | | | (134) | (134) |
| Transfer of profit 2017 to retained earnings | - | 160,783 | - | (160,783) | - | - |
| Balance as at 31 March 2018 | 7,009,632 | 2,715,028 | 69,614 | 74,390 | 12,169 | 9,880,833 |
| Balance as at 1 January 2019 | 7,059,632 | 2,715,028 | 62,878 | 204,328 | 12,146 | 10,054,012 |
| Profit for the period | - | - | - | 21,263 | - | 21,263 |
| Other comprehensive income | - | - | 10,320 | - | - | 10,320 |
| Total comprehensive income | - | - | 10,320 | 21,263 | - | 31,583 |
| Net foreign exchange – Guarantee fund | - | - | - | - | 12 | 12 |
| Transfer of profit 2018 to retained earnings | - | 204,328 | - | (204,328) | - | - |
| Balance as at 31 March 2019 | 7,059,632 | 2,919,356 | 73,198 | 21,263 | 12,158 | 10,085,607 |

The accompanying accounting policies and notes are an integral part of these financial statements.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019

(All amounts are expressed in HRK thousand)

1. General information

1.1. Group:

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

The headquarters of the Bank is located at Strossmayerov trg 9, Zagreb, Croatia.

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

The Croatian Bank for Reconstruction and Development is the 100% owner of HKO, which is 100% owner of Poslovni info servis d.o.o.

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

On 31 March 2019, the Group had 387 employees (on 31 March 2018: 392 employees).

1.2. Bank:

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

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

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

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

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

1. General information (continued)

1.2. Bank (continued):

Supervisory Board

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

- Zdravko Marić, DSc, Minister of Finance - ex officio President of the Supervisory Board,
- Darko Horvat, Minister of the Economy, Entrepreneurship and Trade – ex officio Vice President of the Supervisory Board,
- Predrag Štromar, Deputy Prime Minister of the Republic of Croatia and Minister of Construction and Physical Planning,
- Tomislav Tolušić, Deputy Prime Minister of the Republic of Croatia and Minister of Agriculture,
- Gabrijela Žalac, Minister of Regional Development and EU Funds,
- Gari Cappelli, Minister of Tourism,
- Luka Burilović, President of the Croatian Chamber of Economy – ex officio Member of the Supervisory Board,
- Saša Đujić, Member of the Croatian Parliament,
- Božica Makar, Member of the Croatian Parliament,
- Grozdana Perić, Chairman of the Finance and Central Budget Committee of the Croatian Parliament.

Management Board

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

- Tamara Perko, MSc, President of the Management Board and
- Hrvoje Čuvalo, MSc, Member of the Management Board.

On 31 March 2019, HBOR had 367 employees (31 March 2018: 374 employees).

Audit Committee

On the date of preparing these statements, members of the Audit Committee were as follows:

- Prof. DSc. Lajoš Žager, Professor, Department of Accounting, Faculty of Economics and Business of the University of Zagreb, the Chairman of the Audit Committee,
- Grozdana Perić, Chairman of the Finance and Central Budget Committee of the Croatian Parliament, the Vice Chairman of the Audit Committee,
- Aurora Volarević, Director of Internal Controls, Audit and Risk in Hrvatski telekom d.d., Member of the Audit Committee.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

1. General information (continued)

1.2. Bank (continued):

1.2.1. Activities of the Bank:

The principal activities of the Bank comprise the following:

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

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



Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

2. Basis of Preparation of the Condensed Interim Financial Statements

2.1. Statement of compliance

The Condensed Interim Financial Statements of the Bank and HBOR Group for the period 1 January to 31 March 2019 have been prepared in accordance with the International Accounting Standard 34 Interim Financial Reporting.

The Condensed Interim Financial Statements for the period from 1 January to 31 March 2019 do not include all information and disclosures that are required in the annual financial statements and should be read in combination with the annual financial statements of the HBOR Group for the year ended 31 December 2018.

Changes in significant accounting policies are described in Note 4.1.

2.2. Measurement

The financial statements are prepared on the fair value basis for financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortised or historical cost.

The financial statements are prepared on an accrual and a going concern basis.

2.3. Functional and presentation currency

These financial statements of the Bank and the Group are presented in Croatian Kuna (HRK), which is the Bank's functional currency. All amounts have been rounded to the nearest thousand, except when otherwise indicated.

3. Use of judgements and estimates

For the preparation of financial statements in accordance with IFRSs, the Management Board is required to give estimations and make assumptions that influence the reported balances of assets and liabilities and to disclose contingent amounts of assets and liabilities at the date of financial statements, and present income and expense for the reporting period. Estimations and related assumptions are based on historical experience and various other factors that are considered to be reasonable in the given circumstances and with available information as of the date of preparation of the financial statements, which together form the basis for estimating the carrying amount of assets and liabilities that cannot be easily identified from other sources. Actual results may differ from these estimations. Estimations and related assumptions are continuously reviewed. Changes in accounting estimates are recognised in the period in which the estimate is changed if the change affects only that period, or in the period of change or future periods if the change affects the current and future periods.

Significant accounting judgements and estimates were the same as those described in the last annual financial statements, except accounting estimates and judgements relating to the application of IFRS 16 Leases, which are described in Note 4.1.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies

4.1. Changes in the accounting policies

Since 1 January 2019, the Group has applied the International Standard of Financial Reporting (IFRS) 16 Leases. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Group applied a simplified approach as at 1 January 2019, and the future minimum lease payments of the Group on irrevocable operating leases amounted to HRK 2,258 thousand, on a discounted basis, which the Group estimates it will recognize as additional lease liabilities.

These assets are stated in Note 17. Other assets, and liabilities for leases are stated in Note 21. Other liabilities, due to immaterial amount.

4.2. Standards, supplements and interpretations of existing standards that are not yet in force and that have not been applied in the preparation of these financial statements

Numerous new standards and supplements to standards are in force for annual periods beginning on or after 1 January 2019 and earlier application is allowed; however, the Group has not adopted them earlier for the preparation of these financial statements. The Group considers that new standards and additions to the standards will not have a significant impact on consolidated and separate financial statements.

4.2.1. Other standards

The following amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards,
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28),
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19),
- IFRIC 23 Uncertainty over Income Tax Treatments,
- Amendments to IFRS 9 Prepayment Features with Negative Compensation.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

5. Interest income calculated using the effective interest method

Interest income by borrowers:

| | Group | | Bank | |
|---------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Jan 1 - Mar 31, 2019 HRK '000 | Jan 1 - Mar 31, 2018 HRK '000 | Jan 1 - Mar 31, 2019 HRK '000 | Jan 1 - Mar 31, 2018 HRK '000 |
| Public sector | 23,768 | 24,344 | 23,439 | 23,955 |
| State-owned companies | 8,788 | 12,541 | 8,788 | 12,541 |
| Foreign companies | 10,657 | 4,610 | 10,657 | 4,610 |
| Domestic companies | 66,883 | 85,620 | 66,883 | 85,620 |
| Domestic financial institutions | 41,322 | 54,504 | 41,322 | 54,504 |
| Foreign financial institutions | 290 | 313 | 290 | 313 |
| Penalty interest | 6,426 | 1,968 | 6,426 | 1,968 |
| Other | 5,166 | 6,982 | 5,166 | 6,982 |
| | 163,300 | 190,882 | 162,971 | 190,493 |

Interest income by type of facility:

| | Group | | Bank | |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Jan 1 - Mar 31, 2019 HRK '000 | Jan 1 - Mar 31, 2018 HRK '000 | Jan 1 - Mar 31, 2019 HRK '000 | Jan 1 - Mar 31, 2018 HRK '000 |
| Interest on loans | | | | |
| - financial institutions | 41,316 | 54,512 | 41,316 | 54,512 |
| - other customers | 113,989 | 127,309 | 113,989 | 127,309 |
| | 155,305 | 181,821 | 155,305 | 181,821 |
| Investments in securities | 7,694 | 8,747 | 7,365 | 8,358 |
| - Bonds of the Republic of Croatia | 7,429 | 7,521 | 7,111 | 7,143 |
| - Corporate bonds | 28 | 28 | 17 | 17 |
| - Treasury bills of the Ministry of Finance | 237 | 1,198 | 237 | 1,198 |
| Deposits | 301 | 314 | 301 | 314 |
| | 163,300 | 190,882 | 162,971 | 190,493 |

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 profit or loss on a time basis during the repayment of the loan. Interest income earned on this basis for the period 1 January to 31 March 2019 amounts to HRK 13,403 thousand (1 January to 31 March 2018: HRK 19,344 thousand).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

6. Interest expense

Interest expense by type of payee:

| | Group | | Bank | |
|---------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Jan 1 - Mar 31, 2019 HRK '000 | Jan 1 - Mar 31, 2018 HRK '000 | Jan 1 - Mar 31, 2019 HRK '000 | Jan 1 - Mar 31, 2018 HRK '000 |
| Domestic financial institutions | 2,189 | 243 | 2,189 | 243 |
| Foreign financial institutions | 79,555 | 84,160 | 79,555 | 84,160 |
| Other | 18 | - | 16 | - |
| | 81,762 | 84,403 | 81,760 | 84,403 |

Interest expense by type of facility:

| | Group | | Bank | |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Jan 1 - Mar 31, 2019 HRK '000 | Jan 1 - Mar 31, 2018 HRK '000 | Jan 1 - Mar 31, 2019 HRK '000 | Jan 1 - Mar 31, 2018 HRK '000 |
| Borrowings | 64,071 | 67,010 | 64,071 | 67,010 |
| Debt securities | 17,434 | 17,384 | 17,434 | 17,384 |
| Deposits | 239 | 9 | 239 | 9 |
| Leases – interest expenses on long term contracts | 18 | - | 16 | - |
| | 81,762 | 84,403 | 81,760 | 84,403 |

7. Operating expenses

Operating expenses can be shown as follows:

| | Group | | Bank | |
|--------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Jan 1 - Mar 31, 2019 HRK '000 | Jan 1 - Mar 31, 2018 HRK '000 | Jan 1 - Mar 31, 2019 HRK '000 | Jan 1 - Mar 31, 2018 HRK '000 |
| 7 a) Employee expenses | 23,381 | 22,211 | 22,492 | 21,436 |
| 7 b) Depreciation | 1,867 | 1,737 | 1,859 | 1,728 |
| 7 c) Other expenses | 12,345 | 9,569 | 10,936 | 8,609 |
| Of which: | | | | |
| <i>Administration expenses</i> | 2,835 | 1,995 | 2,740 | 1,936 |
| <i>Material and services</i> | 6,197 | 5,424 | 5,798 | 5,033 |
| <i>Other expenses</i> | 3,313 | 2,150 | 2,398 | 1,640 |
| | 37,593 | 33,517 | 35,287 | 31,773 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

7. Operating expenses (continued)

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

| | Group | | Bank | |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | Jan 1 - Mar 31, 2019 | Jan 1 - Mar 31, 2018 | Jan 1 - Mar 31, 2019 | Jan 1 - Mar 31, 2018 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Change in the claims provision | 1,841 | (146) | - | - |
| Change in the claims provision, reinsurer's share | (1,349) | 73 | - | - |
| Expenses of insurance operations | 492 | (73) | - | - |

Loss provisions as at 31 March 2019 consisted of reported and unreported losses in the approximate proportion 30:70. In the first quarter of 2019, provisions did not significantly change compared to the end of 2018. The Bornhuetter-Ferguson method was used for gross provisions for unreported losses, and for reported losses, the amount was taken according to actual data on loss incurred. The reinsurance share was determined in accordance with the valid terms and conditions of the reinsurance contract.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

8. Impairment loss and provisions

The provision for impairment losses/(gains) on placements may be summarized as follows:

a) Impairment loss and provisions on financial instruments in accordance with IFRS 9

| | Group | | Bank | |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Jan 1 - Mar 31, 2019 HRK '000 | Jan 1 - Mar 31, 2018 HRK '000 | Jan 1 - Mar 31, 2019 HRK '000 | Jan 1 - Mar 31, 2018 HRK '000 |
| Impairment losses on cash on hand and due from financial institutions | (701) | (14) | (702) | (14) |
| Impairment losses on deposits with other banks | (202) | (139) | (202) | (139) |
| Impairment losses on loans to financial institutions | (8,324) | (5,739) | (8,324) | (5,739) |
| Impairment losses on loans to other customers and interest | 107,818 | (29,445) | 107,818 | (29,445) |
| Modification loss – financial institutions | 6,417 | 2,526 | 6,417 | 2,526 |
| Modification loss – other customers | 13,741 | (524) | 13,741 | (524) |
| POCI assets – fair value adjustment at initial recognition | 11,519 | 16,515 | 11,519 | 16,515 |
| Impairment of financial assets at fair value through other comprehensive income | (1,550) | 767 | (1,553) | 767 |
| Impairment losses on other assets | 10 | 4,654 | 51 | 4,595 |
| Provisions for commitments | (5,288) | (6,837) | (5,288) | (6,837) |
| Total | 123,440 | (18,236) | 123,477 | (18,295) |

b) Other impairment losses and provisions

| | Group | | Bank | |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Jan 1 - Mar 31, 2019 HRK '000 | Jan 1 - Mar 31, 2018 HRK '000 | Jan 1 - Mar 31, 2019 HRK '000 | Jan 1 - Mar 31, 2018 HRK '000 |
| Provision for guarantees | (87,333) | 44,249 | (87,333) | 44,249 |
| Impairment losses on foreclosed assets | 95 | (6) | 95 | (6) |
| Provision for other liabilities | (187) | 179 | (187) | 179 |
| Total | (87,425) | 44,422 | (87,425) | 44,422 |
| Total | 36,015 | 26,186 | 36,052 | 26,127 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

9. Cash on hand current accounts with banks

| | Group | | Bank | |
|--|--------------------------|-----------------------------|--------------------------|-----------------------------|
| | 31 March 2019 HRK 000 | 31 December 2018 HRK 000 | 31 March 2019 HRK 000 | 31 December 2018 HRK 000 |
| Account with the Croatian National Bank | 529,828 | 921,278 | 529,828 | 921,278 |
| Cash on hand | 2 | 2 | 2 | 2 |
| Foreign currency account - domestic banks | 2,800 | 6,232 | 2,798 | 6,231 |
| Foreign currency account - foreign banks | 21,862 | 18,129 | 19,687 | 15,211 |
| Domestic currency account - domestic banks | 1,918 | 444 | - | - |
| | 556,410 | 946,085 | 552,315 | 942,722 |
| Loss allowances | (967) | (1,668) | (949) | (1,651) |
| | 555,443 | 944,417 | 551,366 | 941,071 |

The following tables set out information about the credit quality of financial assets measured at amortised cost. The amounts in the tables represent gross carrying amounts:

31 March 2019

| | Group | | | | Bank | | | |
|------------------------------------|--------------------|--------------------|--------------------|------------------|--------------------|--------------------|--------------------|------------------|
| | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | Total HRK 000 | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | Total HRK 000 |
| Gross amount | 556,408 | - | - | 556,408 | 552,313 | - | - | 552,313 |
| Loss allowances | (967) | - | - | (967) | (949) | - | - | (949) |
| Balance as of 31 March 2019 | 555,441 | - | - | 555,441 | 551,364 | - | - | 551,364 |

31 December 2018

| | Group | | | | Bank | | | |
|---------------------------------------|--------------------|--------------------|--------------------|------------------|--------------------|--------------------|--------------------|------------------|
| | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | Total HRK 000 | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | Total HRK 000 |
| Gross amount | 946,083 | - | - | 946,083 | 942,720 | - | - | 942,720 |
| Loss allowances | (1,668) | - | - | (1,668) | (1,651) | - | - | (1,651) |
| Balance as of 31 December 2018 | 944,415 | - | - | 944,415 | 941,069 | - | - | 941,069 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

9. Cash on hand and current accounts with banks (continued)

The movements in the loss allowances on amounts due from banks may be summarized as follows:

| | Jan 1 - Mar 31, 2019 HRK 000 | Group Jan 1 - Dec 31, 2018 HRK 000 | Jan 1 - Mar 31, 2019 HRK 000 | Bank Jan 1 - Dec 31, 2018 HRK 000 |
|--|---|---|---|--|
| Balance as of 1 January | 1,668 | 41 | 1,651 | 41 |
| Net (decrease)/increase of loss allowances on amounts due from banks | (701) | 1,625 | (702) | 1,608 |
| <i>Total recognised through Income Statement (Note 8)</i> | <i>(701)</i> | <i>1,625</i> | <i>(702)</i> | <i>1,608</i> |
| Net foreign exchange gains on loss allowances | - | 2 | - | 2 |
| Balance at the end of the reporting period | 967 | 1,668 | 949 | 1,651 |

Net foreign exchange gains on loss allowances are shown within net gains/(losses) from financial activities in the Income Statement.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

10. Deposits with other banks

| | Group | | Bank | |
|------------------------------|----------------|------------------|----------------|------------------|
| | 31 March 2019 | 31 December 2018 | 31 March 2019 | 31 December 2018 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Deposits with foreign banks | 25,088 | - | 25,088 | - |
| Deposits with domestic banks | 222,752 | 263,283 | 222,752 | 263,283 |
| Accrued interest | 5 | 3 | 5 | 3 |
| | 247,845 | 263,286 | 247,845 | 263,286 |
| Loss allowances | (1,161) | (1,361) | (1,161) | (1,361) |
| | 246,684 | 261,925 | 246,684 | 261,925 |

The following tables set out information about the credit quality of financial assets measured at amortised cost. The amounts in the tables represent gross carrying amounts:

| 31 March 2019 | Group | | | | Bank | | | |
|------------------------------------|----------------|----------|----------|----------------|----------------|----------|----------|----------------|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 |
| Gross amount | 247,845 | - | - | 247,845 | 247,845 | - | - | 247,845 |
| Loss allowances | (1,161) | - | - | (1,161) | (1,161) | - | - | (1,161) |
| Balance as of 31 March 2019 | 246,684 | - | - | 246,684 | 246,684 | - | - | 246,684 |

| 31 December 2018 | Group | | | | Bank | | | |
|---------------------------------------|----------------|----------|----------|----------------|----------------|----------|----------|----------------|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 |
| Gross amount | 263,286 | - | - | 263,286 | 263,286 | - | - | 263,286 |
| Loss allowances | (1,361) | - | - | (1,361) | (1,361) | - | - | (1,361) |
| Balance as of 31 December 2018 | 261,925 | - | - | 261,925 | 261,925 | - | - | 261,925 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

10. Deposits with other banks (continued)

The movements in the loss allowances on deposits with other banks may be summarized as follows:

| | Group | | Bank | |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | Jan 1 - Mar 31, 2019 | Jan 1 - Dec 31, 2018 | Jan 1 - Mar 31, 2019 | Jan 1 - Dec 31, 2018 |
| | HRK 000 | HRK 000 | HRK 000 | HRK 000 |
| Balance as of 1 January | 1,361 | 152 | 1,361 | 152 |
| Net (decrease)/increase of loss allowances on deposits with other banks | (202) | 1,216 | (202) | 1,216 |
| <i>Total recognised through Income Statement (Note 8)</i> | <i>(202)</i> | <i>1,216</i> | <i>(202)</i> | <i>1,216</i> |
| Net foreign exchange losses on loss allowances | 2 | (7) | 2 | (7) |
| Balance at the end of the reporting period | 1,161 | 1,361 | 1,161 | 1,361 |

Net foreign exchange losses on loss allowances are shown within net gains/(losses) from financial activities in the Income Statement.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

11. Loans to financial institutions

| | 31 March 2019 HRK '000 | Group and Bank 31 December 2018 HRK '000 |
|--|---------------------------------------|---|
| Long-term loans under loan programmes | 9,736,527 | 9,695,037 |
| Short-term loans and reverse repo transactions | 675,210 | 691,269 |
| Accrued interest | 22,794 | 7,350 |
| Deferred recognition of loan origination fees | (39,684) | (41,514) |
| | <u>10,394,847</u> | <u>10,352,142</u> |
| Loss allowances | (108,940) | (117,154) |
| | <u>10,285,907</u> | <u>10,234,988</u> |

The following tables set out information about the credit quality of financial assets measured at amortised cost. The amounts in the tables represent gross carrying amounts:

| 31 March 2019 | Group and Bank | | | |
|--|----------------------------|----------------------------|----------------------------|--------------------------|
| | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | Total HRK 000 |
| Gross amount | 10,229,884 | 125,405 | 39,558 | 10,394,847 |
| Loss allowances | (78,455) | (15,130) | (15,355) | (108,940) |
| Balance as of 31 March 2019 | <u>10,151,429</u> | <u>110,275</u> | <u>24,203</u> | <u>10,285,907</u> |

| 31 December 2018 | Group and Bank | | | |
|---|----------------------------|----------------------------|----------------------------|--------------------------|
| | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | Total HRK 000 |
| Gross amount | 10,142,966 | 158,678 | 50,498 | 10,352,142 |
| Loss allowances | (78,126) | (20,941) | (18,087) | (117,154) |
| Balance as of 31 December 2018 | <u>10,064,840</u> | <u>137,737</u> | <u>32,411</u> | <u>10,234,988</u> |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

11. Loans to financial institutions (continued)

The movements in the loss allowances on loans to financial institutions may be summarized as follows:

| | Group | | Bank | |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | Jan 1 - Mar 31, 2019 HRK 000 | Jan 1 - Dec 31, 2018 HRK 000 | Jan 1 - Mar 31, 2019 HRK 000 | Jan 1 - Dec 31, 2018 HRK 000 |
| Balance as of 1 January | 117,154 | 131,020 | 117,154 | 131,020 |
| Net (decrease)/increase of loss allowances on loans to financial institutions | (8,324) | (13,149) | (8,324) | (13,149) |
| <i>Total recognised through Income Statement (Note 8)</i> | <i>(8,324)</i> | <i>(13,149)</i> | <i>(8,324)</i> | <i>(13,149)</i> |
| Net foreign exchange losses on loss allowances | 62 | (964) | 62 | (964) |
| Loss allowances transferred to loans to other customers | (2) | (28) | (2) | (28) |
| Unwinding – changes due to the lapse of time | 50 | 275 | 50 | 275 |
| Balance at the end of the reporting period | 108,940 | 117,154 | 108,940 | 117,154 |

Net foreign exchange losses on loss allowances are shown within net gains/(losses) from financial activities in the Income Statement.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

11. Loans to financial institutions (continued)

Loans to financial institutions, impaired for loss allowances, by purpose of the loan programs:

| | 31 March 2019 HRK '000 | Group and Bank 31 December 2018 HRK '000 |
|--|---------------------------------------|---|
| Loan programme for reconstruction and development of the economy | 1,903,848 | 1,915,895 |
| Export financing | 2,412,928 | 2,448,494 |
| Loan programme for reconstruction and development of infrastructure in the Republic of Croatia | 1,188,482 | 1,130,702 |
| Loan programme for small and medium-sized enterprises | 4,224,248 | 4,192,912 |
| Loan programme for war-torn and demolished housing and business facilities | 7,021 | 7,034 |
| Other | 675,210 | 691,269 |
| Accrued interest | 22,794 | 7,350 |
| Deferred recognition of loan fees | (39,684) | (41,514) |
| | <u>10,394,847</u> | <u>10,352,142</u> |
| Loss allowances | (108,940) | (117,154) |
| | <u>10,285,907</u> | <u>10,234,988</u> |

Average interest rates for total loans to financial institutions, at year level, are stated at 0.61% (1 January – 31 March 2018: 0.78%) and are equal to average interest rates for loans under HBOR loan programmes excluding the liquidity reserve.

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 675,210 thousand (31 December 2018: HRK 691,269 thousand). The above placements are collateralized by securities in the amount of HRK 716,174 thousand (31 December 2018: HRK 737,701 thousand).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

12. Loans to other customers

Loans to other customers, impaired for loss allowances, may be summarized by sectors as follows:

| | Group and Bank | |
|---|--------------------------|--------------------------|
| | 31 March 2019 | 31 December 2018 |
| | HRK '000 | HRK '000 |
| Domestic companies | 10,509,946 | 10,252,669 |
| State-owned companies | 1,139,099 | 1,103,711 |
| Public sector | 3,540,606 | 2,995,506 |
| Foreign companies | 791,823 | 787,639 |
| Non-profit institutions | 5,902 | 5,902 |
| Other | 573,860 | 588,164 |
| Accrued interest | 260,531 | 251,405 |
| Deferred recognition of loan origination fees | (94,238) | (94,014) |
| | <u>16,727,529</u> | <u>15,890,982</u> |
| Loss allowances | (3,499,790) | (3,380,296) |
| | <u>13,227,739</u> | <u>12,510,686</u> |

The following tables set out information about the credit quality of financial assets measured at amortised cost. The amounts in the tables represent gross carrying amounts:

| 31 March 2019 | Group and Bank | | | | |
|------------------------------------|--------------------------|-------------------------|-------------------------|-----------------------|--------------------------|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 |
| Gross amount | 10,399,828 | 1,719,473 | 4,268,372 | 339,856 | 16,727,529 |
| Loss allowances | (388,218) | (517,829) | (2,522,185) | (71,558) | (3,499,790) |
| Balance as of 31 March 2019 | <u>10,011,610</u> | <u>1,201,644</u> | <u>1,746,187</u> | <u>268,298</u> | <u>13,227,739</u> |

| 31 December 2018 | Group and Bank | | | | |
|---------------------------------------|-------------------------|-------------------------|-------------------------|-----------------------|--------------------------|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 |
| Gross amount | 9,760,653 | 1,636,528 | 4,198,058 | 295,743 | 15,890,982 |
| Loss allowances | (351,878) | (494,557) | (2,469,639) | (64,222) | (3,380,296) |
| Balance as of 31 December 2018 | <u>9,408,775</u> | <u>1,141,971</u> | <u>1,728,419</u> | <u>231,521</u> | <u>12,510,686</u> |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

12. Loans to other customers (continued)

The movements in the loss allowances on loans to other customers and interest may be summarized as follows:

| | Group | | Bank | |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | Jan 1 - Mar 31, 2019 HRK 000 | Jan 1 - Dec 31, 2018 HRK 000 | Jan 1 - Mar 31, 2019 HRK 000 | Jan 1 - Dec 31, 2018 HRK 000 |
| Balance as of 1 January | 3,380,296 | 3,593,205 | 3,380,296 | 3,593,205 |
| Net increase/(release) of loss allowances on loans to other customers and interest | 107,818 | (211,161) | 107,818 | (211,161) |
| <i>Total recognised through Income Statement (Note 8)</i> | <i>107,818</i> | <i>(211,161)</i> | <i>107,818</i> | <i>(211,161)</i> |
| Net foreign exchange losses on loss allowances | 4,601 | (15,114) | 4,601 | (15,114) |
| Write-offs | (1,028) | (43,258) | (1,028) | (43,258) |
| Loss allowances transferred from loans to financial institutions | 2 | 28 | 2 | 28 |
| Unwinding – changes due to the lapse of time | 8,699 | 57,089 | 8,699 | 57,089 |
| Acquisition of immovable property | (608) | (989) | (608) | (989) |
| Interest transferred from the off-balance sheet records | 10 | 496 | 10 | 496 |
| Balance at the end of the reporting period | 3,499,790 | 3,380,296 | 3,499,790 | 3,380,296 |

Net foreign exchange losses on loss allowances are shown within net gains/(losses) from financial activities in the Income Statement.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

12. Loans to other customers (continued)

Loans to other customers, net of loss allowances, may be summarized by loan programme as follows:

| | 31 March 2019 HRK '000 | Group and Bank 31 December 2018 HRK '000 |
|--|---------------------------------------|---|
| Loan programme for reconstruction and development of the economy | 3,574,844 | 3,588,290 |
| Export financing | 5,526,707 | 5,428,712 |
| Loan programme for reconstruction and development of infrastructure in the Republic of Croatia | 3,984,135 | 3,771,861 |
| Loan programme for small and medium-sized enterprises | 1,763,366 | 1,818,620 |
| Other | 1,712,184 | 1,126,108 |
| Accrued interest | 260,531 | 251,405 |
| Deferred recognition of loan origination fees | (94,238) | (94,014) |
| | <u>16,727,529</u> | <u>15,890,982</u> |
| Loss allowances | <u>(3,499,790)</u> | <u>(3,380,296)</u> |
| | <u>13,227,739</u> | <u>12,510,686</u> |

Average interest rates on loans to other customers, at year level, are stated at 1.69% (1 January – 31 March 2018: 1.83%).

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

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

13. Financial assets at fair value through profit or loss

| | Group | | Bank | |
|---|------------------|---------------------|------------------|---------------------|
| | 31 March 2019 | 31 December 2018 | 31 March 2019 | 31 December 2018 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Loans at FVPL: | | | | |
| Mezzanine loans | 2,284 | 2,045 | 2,284 | 2,045 |
| | 2,284 | 2,045 | 2,284 | 2,045 |
| Investments in investment funds: | | | | |
| Investments in investment funds at FVPL | 335,159 | 334,060 | 329,574 | 328,597 |
| | 335,159 | 334,060 | 329,574 | 328,597 |
| Unlisted equity instruments: | | | | |
| Investments in corporate shares | - | - | - | - |
| Investments in financial institutions' shares | 161 | 161 | 161 | 161 |
| | 161 | 161 | 161 | 161 |
| | 337,604 | 336,266 | 332,019 | 330,803 |

Shares of companies that are not listed relate to the shares of the company Vinka d.d. for the production of agricultural products acquired through company restructuring measures in replacement of a portion of placements. The percentage of HBOR's share in the equity of the company Vinka d.d., Vinkovci representing a 0.9365%. The shares of the company Vinka d.d., Vinkovci (LPVC-R-B) are not listed and the fair value is estimated to be HRK 0 thousand (31 December 2018: HRK 0 thousand).

The shares of financial institutions that are not listed relate to the shares of Tržište novca i kratkoročnih vrijednosnica d.d. (Money Market and Short-Term Securities) and are stated in the amount of HRK 161 thousand (31 December 2018: HRK 161 thousand).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

14. Financial assets at fair value through other comprehensive income

| | 31 March 2019 HRK '000 | Group 31 December 2018 HRK '000 | 31 March 2019 HRK '000 | Bank 31 December 2018 HRK '000 |
|---|------------------------------|--|------------------------------|---|
| Debt instruments: | | | | |
| Listed debt instruments: | | | | |
| Bonds of the Republic of Croatia | 1,208,756 | 1,124,611 | 1,171,998 | 1,088,457 |
| Corporate bonds | 770 | 770 | - | - |
| Treasury bills of the Ministry of Finance | 699,629 | 1,666,299 | 699,629 | 1,666,299 |
| Accrued interest | 8,766 | 11,313 | 8,446 | 10,839 |
| | 1,917,921 | 2,802,993 | 1,880,073 | 2,765,595 |
| Unlisted debt instruments: | | | | |
| Corporate bonds | 549 | 535 | 549 | 535 |
| Accrued interest | 250 | 233 | 250 | 233 |
| | 799 | 768 | 799 | 768 |
| Equity instruments: | | | | |
| Unlisted equity instruments: | | | | |
| Investments in shares of foreign legal entities - SWIFT | 38 | 38 | 38 | 38 |
| Shares of foreign financial institutions – EIF | 25,697 | 25,671 | 25,697 | 25,671 |
| | 25,735 | 25,709 | 25,735 | 25,709 |
| | 1,944,455 | 2,829,470 | 1,906,607 | 2,792,072 |

The following tables set out information about the credit quality of financial assets measured at FVOCI. The amounts in the tables represent gross carrying amounts:

| 31 March 2019 | Group | | | | Bank | | | |
|--|--------------------|--------------------|--------------------|------------------|--------------------|--------------------|--------------------|------------------|
| | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | Total HRK 000 | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | Total HRK 000 |
| Gross amount | 1,917,921 | - | 799 | 1,918,720 | 1,880,073 | - | 799 | 1,880,872 |
| Balance as of 31 March 2019 | 1,917,921 | - | 799 | 1,918,720 | 1,880,073 | - | 799 | 1,880,872 |

| 31 December 2018 | Group | | | | Bank | | | |
|---|--------------------|--------------------|--------------------|------------------|--------------------|--------------------|--------------------|------------------|
| | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | Total HRK 000 | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | Total HRK 000 |
| Gross amount | 2,802,223 | 770 | 768 | 2,803,761 | 2,765,595 | - | 768 | 2,766,363 |
| Balance as of 31 December 2018 | 2,802,223 | 770 | 768 | 2,803,761 | 2,765,595 | - | 768 | 2,766,363 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

14. Financial assets at fair value through other comprehensive income (continued)

Changes in the loss allowances of financial assets at fair value through other comprehensive income, which do not impair the carrying value of financial assets, may be summarized as follows:

| | Group | | Bank | |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | Jan 1 - Mar 31, 2019 HRK 000 | Jan 1 - Dec 31, 2018 HRK 000 | Jan 1 - Mar 31, 2019 HRK 000 | Jan 1 - Dec 31, 2018 HRK 000 |
| Balance as of 1 January | 6,746 | 4,288 | 6,459 | 3,997 |
| Net increase/(release) of loss allowances | (1,550) | 2,477 | (1,553) | 2,481 |
| <i>Total recognised through Income Statement (Note 8)</i> | <i>(1,550)</i> | <i>2,477</i> | <i>(1,553)</i> | <i>2,481</i> |
| Net foreign exchange losses on loss allowances | 3 | (19) | 3 | (19) |
| Balance at the end of the reporting period | 5,199 | 6,746 | 4,909 | 6,459 |

Net foreign exchange losses on loss allowances are shown within net gains/(losses) from financial activities in the Income Statement.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

14. Financial assets at fair value through other comprehensive income (continued)

The following text contains investment breakdown:

| | Date of issue | Date of maturity | Interest rate (%) | 31 March 2019 HRK '000 | Group 31 December 2018 HRK '000 | 31 March 2019 HRK '000 | Bank 31 December 2018 HRK '000 | |
|---|---|------------------|-------------------|---------------------------|---------------------------------------|---------------------------|--------------------------------------|------------------|
| Listed debt instruments: | | | | | | | | |
| Debt instruments: | | | | | | | | |
| <i>Bonds of the Republic of Croatia with a currency clause:</i> | | | | | | | | |
| | RHMF-O-19BA | 29.11.2004. | 29.11.2019. | 5.375 | 101,830 | 44,711 | 100,909 | 43,777 |
| | RHMF-O-227E | 22.7.2011. | 22.7.2022. | 6.5 | 168,686 | 169,815 | 168,686 | 169,815 |
| | RHMF-O-247E | 10.7.2013. | 10.7.2024. | 5.75 | 18,138 | 18,083 | 12,776 | 12,728 |
| | RHMF-O-203E | 5.3.2010. | 5.3.2020. | 6.5 | 785 | 797 | - | - |
| | RHMF-O222E | 5.2.2019. | 05.02.22 | 0.5 | 14,885 | - | 14,885 | - |
| <i>Bonds of the Republic of Croatia in foreign currency:</i> | | | | | | | | |
| | XS1117298916 | 11.3.2015. | 11.3.2025. | 3.0 | 58,129 | 55,867 | 58,129 | 55,867 |
| <i>Bonds of the Republic of Croatia in HRK:</i> | | | | | | | | |
| | RHMF-O-203A | 5.3.2010. | 5.3.2020. | 6.75 | 34,579 | 35,074 | 31,816 | 32,270 |
| | RHMF-O-257A | 9.7.2015. | 9.7.2025. | 4.5 | 10,093 | 9,861 | - | - |
| | RHMF-O-26CA | 14.12.2015. | 14.12.2026. | 4.25 | 45,513 | 44,544 | 36,008 | 35,261 |
| | RHMF-O-217A | 8.7.2016. | 8.7.2021. | 2.75 | 230,076 | 229,636 | 227,960 | 227,522 |
| | RHMF-O-222A | 7.2.2017. | 7.2.2022. | 2.25 | 73,667 | 73,106 | 73,667 | 73,106 |
| | RHMF-O-282A | 7.2.2017. | 7.2.2028. | 2.875 | 13,009 | 12,653 | 10,943 | 10,641 |
| | RHMF-O-023BA | 27.11.2017. | 27.11.2023. | 1.75 | 436,219 | 427,470 | 436,219 | 427,470 |
| | RHMF-O-297A | 9.7.2018. | 9.7.2029. | 2.38 | 3,147 | 2,994 | - | - |
| <i>Corporate bonds in HRK:</i> | | | | | | | | |
| | JDGL-O-20CA | 21.12.2015. | 21.12.2020. | 5.81 | 770 | 770 | - | - |
| | Treasury bills in HRK up to 364 days | | | 0.044-0.139 | 699,629 | 1,369,700 | 699,629 | 1,369,700 |
| | Treasury bills in foreign currency up to 455 days | | | 0.093 | - | 296,599 | - | 296,599 |
| | Accrued interest | | | | 8,766 | 11,313 | 8,446 | 10,839 |
| | | | | | 1,917,921 | 2,802,993 | 1,880,073 | 2,765,595 |
| Unlisted debt instruments: | | | | | | | | |
| <i>Corporate bonds with a currency clause:</i> | | | | | | | | |
| | LNGU-O-31AE | 24.7.2015. | 15.10.2031. | 4.5 | 549 | 535 | 549 | 535 |
| | Accrued interest | | | | 250 | 233 | 250 | 233 |
| | | | | | 799 | 768 | 799 | 768 |
| Equity instruments: | | | | | | | | |
| <i>Unlisted equity instruments:</i> | | | | | | | | |
| | Investments in shares of foreign legal entities - SWIFT | | | | 38 | 38 | 38 | 38 |
| | Investments in shares of foreign financial institutions - EIF | | | | 25,697 | 25,671 | 25,697 | 25,671 |
| | | | | | 25,735 | 25,709 | 25,735 | 25,709 |
| | | | | | 1,944,455 | 2,829,470 | 1,906,607 | 2,792,072 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

15. Debt instruments at amortised cost

| | Group | | Bank | |
|----------------------------------|---------------|------------------|---------------|------------------|
| | 31 March 2019 | 31 December 2018 | 31 March 2019 | 31 December 2018 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Debt instruments: | | | | |
| Listed debt instruments: | | | | |
| Bonds of the Republic of Croatia | 1,349 | 1,352 | - | - |
| Accrued interest | 18 | 13 | - | - |
| | 1,367 | 1,365 | - | - |
| Loss allowances | (2) | (2) | - | - |
| | 1,365 | 1,363 | - | - |

The following tables set out information about the credit quality of financial assets measured at amortised cost. The amounts in the tables represent gross carrying amounts:

| 31 March 2018 | Group | | | | Bank | | | |
|------------------------------------|--------------|---------|---------|--------------|---------|---------|---------|---------|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 |
| Gross amount | 1,367 | - | - | 1,367 | - | - | - | - |
| Loss allowances | (2) | - | - | (2) | - | - | - | - |
| Balance as of 31 March 2019 | 1.365 | - | - | 1,365 | - | - | - | - |

| 31 December 2018 | Group | | | | Bank | | | |
|---------------------------------------|--------------|---------|---------|--------------|---------|---------|---------|---------|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 |
| Gross amount | 1,365 | - | - | 1,365 | - | - | - | - |
| Loss allowances | (2) | - | - | (2) | - | - | - | - |
| Balance as of 31 December 2018 | 1,363 | - | - | 1,363 | - | - | - | - |

The movements in the loss allowances on debt instruments at amortised cost may be summarized as follows:

| | Group | | Bank | |
|---|----------------------|----------------------|----------------------|----------------------|
| | Jan 1 - Mar 31, 2019 | Jan 1 - Dec 31, 2018 | Jan 1 - Mar 31, 2019 | Jan 1 - Dec 31, 2018 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance as of 1 January | 2 | 2 | - | - |
| Balance at the end of the reporting period | 2 | 2 | - | - |

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-203E) issued with foreign currency clause on 5 March 2010 are repayable over 10 years with an interest rate of 6.5%. As of 31 March 2019, the value of these outstanding bonds amounted to HRK 452 thousand (31 December 2018: HRK 454 thousand).

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-19BA) issued with foreign currency clause on 29 November 2004 are repayable over 15 years with an interest rate of 5.375%. As of 31 March 2019, the value of these outstanding bonds amounted to HRK 897 thousand (31 December 2018: HRK 898 thousand).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

16. Foreclosed assets

| | Group | | Bank | |
|------------------------|-----------------|--------------------|-----------------|--------------------|
| | 31 March | 31 December | 31 March | 31 December |
| | 2019 | 2018 | 2019 | 2018 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Foreclosed assets, net | 25,788 | 25,330 | 25,788 | 25,330 |
| | 25,788 | 25,330 | 25,788 | 25,330 |

In the reporting period 2019, acquisition of property took place with present value in the amount of HRK 183 thousand, acquisition value of HRK 791 thousand and provisions of HRK 608 thousand, and relates to a building (in 2018, acquisition of property took place with present value in the amount of HRK 8,538 thousand, acquisition value of HRK 10,195 thousand and provisions of HRK 1,657 thousand, and relates to land plot in the amount of HRK 2,286 thousand, acquisition value of HRK 2,584 thousand and provisions of HRK 298 thousand and buildings in the amount of HRK 6,252 thousand, acquisition value of HRK 7,611 thousand and provisions of HRK 1,359 thousand).

Fair value of acquired property as at 31 March 2019 amounted to HRK 791 thousand.

In the period 1 January - 31 March 2019, there was no sale of foreclosed assets (in 2018, sale of foreclosed assets took place with present value in the amount of HRK 0 thousand, acquisition value and provisions of HRK 19 thousand, and relates to movable property).

In the reporting period 2019, foreclosed assets were transferred to lease on the item Investments in property in the amount of HRK 1,355 thousand (2018: HRK 1,743 thousand), which is presented under Other assets due to immaterial significance. In 2019, this property was depreciated in the amount of HRK 18 thousand.

The fair value of foreclosed assets at the beginning of the reporting period stood at HRK 38,261 thousand and the end of the reporting period at HRK 38,816 thousand.

Adjustment decrease amount for the Group and the Bank that has an effect on the Statement of Profit or Loss stood at HRK 95 thousand in 2019 (1 January – 31 March 2018: decrease of HRK 6 thousand).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

17. Other assets

| | Group | | Bank | |
|---|---------------------------|------------------------------|---------------------------|------------------------------|
| | 31 March 2019 HRK '000 | 31 December 2017 HRK '000 | 31 March 2019 HRK '000 | 31 December 2017 HRK '000 |
| Fees receivable | 27,037 | 27,161 | 27,037 | 27,161 |
| Other receivables | 12,669 | 11,070 | 12,513 | 10,904 |
| Prepaid expenses | 2,184 | 3,002 | 2,203 | 3,002 |
| Accrued income | 9,830 | 6,437 | 9,810 | 6,437 |
| Premium receivables | 7,509 | 7,371 | - | - |
| Receivables for reinsurance commissions | 546 | 867 | - | - |
| Receivables for risk assessment fees | 308 | 371 | - | - |
| Deferred tax assets | 15 | - | - | - |
| Leased assets | 2,095 | - | 1,993 | - |
| Other assets | 1,208 | 1,543 | 1,208 | 1,543 |
| | 63,401 | 57,822 | 54,764 | 49,047 |
| Loss allowances | (34,131) | (34,118) | (33,936) | (33,883) |
| | 29,270 | 23,704 | 20,828 | 15,164 |

The following tables set out information about the credit quality of financial assets measured at amortised cost. The amounts in the tables represent gross carrying amounts:

| 31 March 2019 | Group | | | | | Bank | | | | |
|-----------------------------|--------------------|--------------------|--------------------|-----------------|------------------|--------------------|--------------------|--------------------|-----------------|------------------|
| | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | POCI HRK 000 | Total HRK 000 | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | POCI HRK 000 | Total HRK 000 |
| Gross amount | 12,744 | 63 | 35,260 | 2 | 48,069 | 4,225 | 63 | 35,260 | 2 | 39,550 |
| Loss allowances | (226) | - | (33,905) | - | (34,131) | (31) | - | (33,905) | - | (33,936) |
| Balance as of 31 March 2019 | 12,518 | 63 | 1,355 | 2 | 13,938 | 4,194 | 63 | 1,355 | 2 | 5,614 |

| 31 December 2018 | Group | | | | | Bank | | | | |
|--------------------------------|--------------------|--------------------|--------------------|-----------------|------------------|--------------------|--------------------|--------------------|-----------------|------------------|
| | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | POCI HRK 000 | Total HRK 000 | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | POCI HRK 000 | Total HRK 000 |
| Gross amount | 11,596 | 12 | 35,232 | - | 46,840 | 2,821 | 12 | 35,232 | - | 38,065 |
| Loss allowances | (281) | - | (33,837) | - | (34,118) | (46) | - | (33,837) | - | (33,883) |
| Balance as of 31 December 2018 | 11,315 | 12 | 1,395 | - | 12,722 | 2,775 | 12 | 1,395 | - | 4,182 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

17. Other assets (continued)

The following text contains the breakdown of positions stated as credit risk:

| | Group | | Bank | |
|---|---------------|------------------|---------------|------------------|
| | 31 March 2019 | 31 December 2018 | 31 March 2019 | 31 December 2018 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Fees receivable | 27,037 | 27,161 | 27,037 | 27,161 |
| Other receivables | 12,669 | 11,070 | 12,513 | 10,904 |
| Premium receivables | 7,509 | 7,371 | - | - |
| Receivables for reinsurance commissions | 546 | 867 | - | - |
| Receivables for risk assessment fees | 308 | 371 | - | - |
| Loss allowance | (34,131) | (34,118) | (33,936) | (33,883) |
| Subtotal – credit risk | 13,938 | 12,722 | 5,614 | 4,182 |

The movements in the loss allowances on other assets may be summarized as follows:

| | Group | | Bank | |
|---|----------------------|----------------------|----------------------|----------------------|
| | Jan 1 - Mar 31, 2019 | Jan 1 - Dec 31, 2018 | Jan 1 - Mar 31, 2019 | Jan 1 - Dec 31, 2018 |
| | HRK 000 | HRK 000 | HRK 000 | HRK 000 |
| Balance as of 1 January | 34,118 | 13,223 | 33,883 | 13,087 |
| Net increase/ of loss allowances on other assets | 10 | 20,915 | 51 | 20.814 |
| <i>Total recognised through Income statement (Note 8)</i> | <i>10</i> | <i>20,915</i> | <i>51</i> | <i>20.814</i> |
| Write-offs | - | (10) | - | (10) |
| Acquisition of immovable property | - | (14) | - | (14) |
| Net foreign exchange losses on loss allowances | 2 | 6 | 2 | 6 |
| Other adjustments | 1 | (2) | - | - |
| Balance at the end of the reporting period | 34,131 | 34,118 | 33,936 | 33.883 |

Net foreign exchange gains on loss allowances are shown within net gains/(losses) from financial activities in the Income Statement.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

18. Borrowings

| | Group | | Bank | |
|----------------------------|-------------------|-------------------|-------------------|-------------------|
| | 31 March 2019 | 31 December 2018 | 31 March 2019 | 31 December 2018 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance as of 1 January | 14,863,426 | 15,399,788 | 14,863,426 | 15,399,788 |
| New borrowings | 449,129 | 2,284,763 | 449,129 | 2,284,763 |
| Repayments | (848,619) | (2,658,936) | (848,619) | (2,658,936) |
| Net foreign exchange gains | 28,145 | (162,189) | 28,145 | (162,189) |
| | 14,492,081 | 14,863,426 | 14,492,081 | 14,863,426 |
| Accrued interest | 67,280 | 55,014 | 67,280 | 55,014 |
| Deferred fees | (38,127) | (40,453) | (38,127) | (40,453) |
| | 14,521,234 | 14,877,987 | 14,521,234 | 14,877,987 |

The Bank is subject to various financial clauses from the Contract. On 31 March 2019 the Bank was in compliance with all required financial clauses from the Contract.

19. Debt securities issued

The book value of bonds includes interest.

| Group and Bank | Effective interest rate % | Fair value | Net book value | Fair value | Net book value |
|-----------------------|---------------------------|------------------|------------------|------------------|------------------|
| | | 31 March 2019 | 31 March 2019 | 31 December 2018 | 31 December 2018 |
| | | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Bonds EUR 150 million | 6.37 | 1,182,288 | 1,109,452 | 1,190,721 | 1,107,413 |
| Accrued interest | | - | 59,868 | - | 43,347 |
| Deferred fees | | - | (167) | - | (203) |
| | | 1,182,288 | 1,169,153 | 1,190,721 | 1,150,557 |

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).

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Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

20. Provisions for guarantees, commitments and other liabilities

| | Group | | Bank | |
|--|---------------------------------------|--|---------------------------------------|--|
| | 31 March 2019 HRK '000 | 31 December 2018 HRK '000 | 31 March 2019 HRK '000 | 31 December 2018 HRK '000 |
| Provisions for guarantees, commitments | 169,276 | 261,283 | 169,276 | 261,283 |
| Provisions other liabilities | 60,021 | 60,208 | 59,891 | 60,078 |
| | 229,297 | 321,491 | 229,167 | 321,361 |

The movements in the loss allowances on guarantees, commitments and other liabilities may be summarized as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | Jan 1 - Mar 31, 2019 HRK 000 | Jan 1 - Dec 31, 2018 HRK 000 | Jan 1 - Mar 31, 2019 HRK 000 | Jan 1 - Dec 31, 2018 HRK 000 |
| Balance as of 1 January | 261,283 | 49,347 | 261,283 | 49,347 |
| Net increase/(release) of loss allowances on guarantees | (87,333) | 141,180 | (87,333) | 141,180 |
| <i>Total recognised through Income Statement (Note 8)</i> | <i>(87,333)</i> | <i>141,180</i> | <i>(87,333)</i> | <i>141,180</i> |
| Net increase/(release) of loss allowances on commitments | (5,288) | 68,931 | (5,288) | 68,931 |
| Total recognised through Income Statement (Note 8) | (5,288) | 68,931 | (5,288) | 68,931 |
| Net foreign exchange losses on loss allowances | 614 | 1,825 | 614 | 1,825 |
| Balance at the end of the reporting period - Provisions for guarantees and commitments | 169,276 | 261,283 | 169,276 | 261,283 |
| Balance as of 1 January | 60,208 | 76,980 | 60,078 | 76,723 |
| Net increase/(release) of loss allowances on other liabilities | (187) | (16,918) | (187) | (16,789) |
| <i>Total recognised through Income Statement (Note 8)</i> | <i>(187)</i> | <i>(16,918)</i> | <i>(187)</i> | <i>(16,789)</i> |
| Unrealized actuarial gains | - | 144 | - | 144 |
| Other adjustments | - | 2 | - | - |
| Balance at the end of the reporting period - Provisions for other liabilities | 60,021 | 60,208 | 59,891 | 60,078 |

Net foreign exchange gains/(losses) on loss allowances are shown within net gains/ (losses) from financial activities in the Income Statement.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

20. Provisions for guarantees, commitments and other liabilities (continued)

Out of the total provisions for guarantees and commitments, the amount of HRK 6,323 thousand relates to financial institutions (31 December 2018: HRK 2,444 thousand), HRK 162,701 thousand relates to domestic companies (31 December 2018: HRK 258,622 thousand), HRK 172 thousand relates to the public sector (31 December 2018: HRK 147 thousand), HRK 80 thousand relates to other liabilities (31 December 2018: HRK 70 thousand).

21. Other liabilities

| | Group | | Bank | |
|---|------------------------------|---------------------------------|------------------------------|---------------------------------|
| | 31 March 2019 HRK '000 | 31 December 2018 HRK '000 | 31 March 2019 HRK '000 | 31 December 2018 HRK '000 |
| Deferred recognition of interest income | 202,190 | 226,064 | 202,190 | 226,064 |
| Liabilities in respect of subsidized interest | 130,367 | 120,726 | 130,367 | 120,726 |
| Accrued salaries | 7,287 | 7,405 | 7,104 | 7,218 |
| Liabilities to suppliers | 948 | 2,766 | 873 | 2,662 |
| Liabilities for prepaid receivables | 1,615 | 2,378 | 1,615 | 2,378 |
| Deferrable premium | 2,709 | 2,880 | - | - |
| Provisions for claims | 4,836 | 4,527 | - | - |
| Provisions for return premiums | 846 | 791 | - | - |
| Liabilities to re-insurers | 2,347 | 2,407 | - | - |
| Deferred tax liabilities | 821 | 669 | - | - |
| Lease liabilities | 2,116 | - | 2,013 | - |
| Other liabilities | 7,346 | 8,130 | 6,139 | 6,866 |
| | 363,428 | 378,743 | 350,301 | 365,914 |

Liabilities in respect of subsidized interest represent advances taken in respect of interest subsidies on loans, which are provided for final customers at a lower interest rate in accordance with the following programmes implemented by HBOR for and on behalf of the Republic of Croatia. These liabilities include:

- HRK 130,326 thousand in respect of the Programme of Preferential Financing through HBOR's Loan Programmes (31 December 2018: HRK 120,433 thousand),
- HRK 2 thousand in respect of the Financing Model for the Reconstruction and Modernisation of the Fishing Fleet – Ministry of the Sea, Transport and Infrastructure (31 December 2018: HRK 0 thousand),
- HRK 2 thousand in respect of the Financing Model for the Reconstruction and Modernisation of the Fishing Fleet – Ministry of the Economy, Entrepreneurship and Trade (31 December 2018: HRK 0 thousand),
- HRK 0 thousand in respect of the Financing Model for the Reconstruction and Modernisation of the Fishing Fleet – Ministry of Agriculture (31 December 2018: HRK 293 thousand),
- HRK 37 thousand in respect of the Youth Entrepreneurship and/or Start-Ups - Ministry of the Economy, Entrepreneurship and Trade (31 December 2018: HRK 0 thousand).

Deferred recognition of interest income of HRK 202,190 thousand (31 December 2018: HRK 226,064 thousand) consists of state subsidies for interest in respect of loans which are provided and drawn down by final borrowers at lower interest rates but are not yet in repayment stage, amounting to HRK 9,090 thousand (31 December 2018: HRK 7,694 thousand), and in respect of those already in repayment stage amounting to HRK 193,100 thousand (31 December 2018: HRK 218,370 thousand).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

22. Guarantees and commitments

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

These obligations contain credit risk and are therefore part of the overall risk of the Group although they are not recognised in the Statement of financial position.

Group and Bank

| | 31 March 2019 HRK '000 | 31 December 2018 HRK '000 |
|---|---------------------------------------|--|
| Guarantees issued in HRK | 81,212 | 33,917 |
| Guarantees issued in foreign currency | 1,279,070 | 1,994,851 |
| Undrawn loans | 4,061,839 | 3,379,519 |
| EIF – subscribed, not called up capital | 47,520 | 47,472 |
| Other irrevocable contingent liabilities | 93 | 93 |
| | <u>5,469,734</u> | <u>5,455,852</u> |
| Provisions for guarantees and commitments | (169,276) | (261,283) |
| | <u>5,300,458</u> | <u>5,194,569</u> |

The following tables set out information about the credit quality of guarantees and commitments. For loan commitments and financial guarantee contracts, the amounts in the tables represent the amount committed or guaranteed:

| 31 March 2019 | Group and Bank | | | | |
|--|----------------------------|----------------------------|----------------------------|-------------------------|--------------------------|
| | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | POCI HRK 000 | Total HRK 000 |
| Gross amount | 3,497,761 | 662,464 | 1,256,120 | 5,869 | 5,422,214 |
| Loss allowances | (11,584) | (67,046) | (84,952) | (5,694) | (169,276) |
| Balance as of 31 March 2019 | <u>3,486,177</u> | <u>595,418</u> | <u>1,171,168</u> | <u>175</u> | <u>5,252,938</u> |

| 31 December 2018 | Group and Bank | | | | |
|---|----------------------------|----------------------------|----------------------------|-------------------------|--------------------------|
| | Stage 1 HRK 000 | Stage 2 HRK 000 | Stage 3 HRK 000 | POCI HRK 000 | Total HRK 000 |
| Gross amount | 2,708,846 | 669,160 | 2,009,169 | 21,205 | 5,408,380 |
| Loss allowances | (9,170) | (65,094) | (175,996) | (11,023) | (261,283) |
| Balance as of 31 December 2018 | <u>2,699,676</u> | <u>604,066</u> | <u>1,833,173</u> | <u>10,182</u> | <u>5,147,097</u> |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

22. Guarantees and commitments (continued)

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. However, since all the stated guarantees issued are non-financial guarantees, i.e. they are performance related guarantees, they are measured with the IAS 37 Provisions, Contingent Liabilities and Contingent Asset.

Bank guarantees are, to the extent of 77%, collateralized by the guarantees, deposits and bank guarantees.

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.

The contingent liability was reduced due to the completion of bankruptcy proceedings during which recourse payment was not collected.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

23. 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.

Assets and liabilities as of 31 March 2019 and 31 December 2018, and income and expense for the period 1 January to 31 March 2019 and for the period 1 January to 31 March 2018 arising from transactions with related parties, including the Bank's key management personnel, include the following:

a) Related-party transactions

| Group | Assets | Liabilities | Assets | Liabilities |
|--|------------------|------------------|---------------------|---------------------|
| | 31 March 2019 | 31 March 2019 | 31 December 2018 | 31 December 2018 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Owner | 3,948,674 | 206,862 | 4,335,942 | 189,014 |
| Government funds, executive authorities and agencies | 1,044,326 | 189,105 | 1,044,262 | 189,877 |
| State-owned companies | 1,093,679 | 36 | 1,118,540 | 19 |
| Associates | 3 | - | 40 | 10 |
| Key management personnel | 4,166 | 1,942 | 4,498 | 2,117 |
| Total | 6,090,848 | 397,945 | 6,503,282 | 381,037 |

| Group | Income | Expense | Income | Expense |
|--|------------------------|------------------------|------------------------|------------------------|
| | Jan 1 – Mar 31 2019 | Jan 1 – Mar 31 2019 | Jan 1 – Mar 31 2018 | Jan 1 – Mar 31 2018 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Owner | 14,035 | 454 | 14,140 | 2,533 |
| Government funds, executive authorities and agencies | 8,933 | 244 | 8,654 | 106 |
| State-owned companies | 16,030 | 2,868 | 17,891 | 18,899 |
| Associates | - | - | 5 | 3 |
| Key management personnel | 42 | 2,195 | 47 | 2,235 |
| Total | 39,040 | 5,761 | 40,737 | 23,776 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

23. Related-party transactions (continued)

a) Related-party transactions (continued)

| Bank | Assets | Liabilities | Assets | Liabilities |
|--|------------------|----------------|------------------|------------------|
| | 31 March 2019 | 31 March 2019 | 31 December 2018 | 31 December 2018 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Owner | 3,948,674 | 206,862 | 4,335,942 | 189,014 |
| Government funds, executive authorities and agencies | 1,005,774 | 188,971 | 1,006,177 | 189,666 |
| State-owned companies | 1,093,649 | 1 | 1,117,758 | 17 |
| Subsidiary companies | 36,124 | - | 36,124 | - |
| Associates | 3 | - | 40 | 10 |
| Key management personnel | 4,084 | 1,942 | 4,412 | 2,014 |
| Total | 6,088,308 | 397,776 | 6,500,453 | 380,721 |

| Bank | Income | Expense | Income | Expense |
|--|---------------------|---------------------|---------------------|---------------------|
| | Jan 1 – Mar 31 2019 | Jan 1 – Mar 31 2019 | Jan 1 – Mar 31 2018 | Jan 1 – Mar 31 2018 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Owner | 14,035 | 454 | 14,140 | 2,533 |
| Government funds, executive authorities and agencies | 8,465 | 139 | 8,199 | 1 |
| State-owned companies | 16,030 | 2,854 | 17,891 | 18,885 |
| Subsidiary companies | - | - | - | - |
| Associates | - | - | 5 | 3 |
| Key management personnel | 42 | 1,859 | 39 | 1,909 |
| Total | 38,572 | 5,306 | 40,274 | 23,331 |

Assets include loans to other customers, debt instruments at amortised cost, financial assets at fair value through other comprehensive income, other assets and off-balance sheet exposure relating to commitments.

Liabilities include liabilities for deposits, salaries, provisions on behalf of retirement and jubilee awards of key management and other liabilities.

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

Expenses include expenses for key management salaries, impairment loss and provisions.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

23. Related-party transactions (continued)

b) Collateral received

| | Group | | Bank | |
|-------------------------|------------------------------|---------------------------------|------------------------------|---------------------------------|
| | 31 March 2019 HRK '000 | 31 December 2018 HRK '000 | 31 March 2019 HRK '000 | 31 December 2018 HRK '000 |
| The Republic of Croatia | 3,733,720 | 4,192,023 | 3,638,231 | 4,096,373 |
| State agencies | 458,948 | 471,641 | 458,948 | 471,641 |
| Total | 4,192,668 | 4,663,664 | 4,097,179 | 4,568,014 |

Collateral received relates to first-class collateral instruments received as security for HBOR's placements comprising the Republic of Croatia guarantees, HAMAG-BICRO guarantees, loans and guarantee insurance policies and 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 15% 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, benefits payable for past service and payments under contractual agreements. Salaries for the Group in the reporting period amounted to HRK 2,151 thousand (1 January to 31 March 2018: HRK 2,183 thousand), and for the Bank amounted to HRK 1,829 thousand (1 January to 31 March 2018: HRK 1,879 thousand).

Remuneration for the work of the members of the Supervisory Board for the Group amounted to HRK 44 thousand (1 January to 31 March 2018: HRK 52 thousand) and for the Bank amounted to HRK 30 thousand (1 January to 31 March 2018: HRK 30 thousand).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management

Based on the Act on the Croatian Bank for Reconstruction and Development, the Group is obliged to mitigate business risks directed by the principles of banking operations.

In the process of risk management, the Group identifies, estimates, measures, monitors, contains and controls the risks to which it is or might be exposed in the course of business and reports about them to the relevant authorities. By the mentioned procedures, appropriate internal documents and adequate organisational structure, a comprehensive and complete risk management system is provided.

The most significant risks the Group is exposed are credit risk, liquidity risk, interest rate risk in the Bank's book, foreign exchange risk, operational risk and outsourcing risk. These risks are managed daily in accordance with the policies, ordinances, procedures, methodologies and limit systems as well as decisions/conclusions of the Supervisory Board, the Management Board and the risk management committees.

The Group 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.

24.1. Overview of the most important risks

Credit risk

The Group controls credit risk through credit policies, ordinances and prescribed procedures that determine the internal control systems with an objective to act preventively.

The credit risk management system is the most important part of the HBOR business policy and is an important factor of its operation strategy.

Liquidity risk, currency risk and interest rate risk in the Bank's book

The Group ensures quality management of liquidity, currency and interest rate risks in the banking book through the Asset and Liability Management Committee. The management of these risks implies a reduction of interest rate risk, currency risk and liquidity risk to the lowest possible level. The majority of the Group's organisational units are included, directly and indirectly, in the operations of the Asset and Liability Management Committee in order to ensure a high-quality, integrated and comprehensive system for the management of these risks.

Liquidity risk

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

In order to manage liquidity risk, the Group 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 Group monitors and strives to achieve compatibility of contracted and planned placements with the respective sources according to maturity. The Group does not hold deposits of citizens and is therefore not exposed to wide daily fluctuations in liquidity .

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.1. Overview of the most important risks (continued)

Liquidity risk (continued)

The Group monitors liquidity risk by implementing the sensitivity analyses and scenario analyses in regular or stressful business conditions and early warning signals and procedures for liquidity crisis indication or occurrence are determined.

Interest rate risk in the Bank's book

The basic principles for managing the Group's interest rate risk are determined in the internal documents as well as in the decisions and conclusions made by the Management Board and the Asset and Liability Management Committee. For the purpose of measurement and monitoring of interest rate risk, the Group 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 Group to the changes in interest rates. Interest rates are structured per currency, type and value and projections of average weighted interest rates for Group's funds and placements are made. Furthermore, in addition to harmonising interest rates on sources and placements, current market conditions and movements in forecasted market indicators are also monitored.

Currency risk

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

The Group 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 Group 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.

Operational risk

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

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

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

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.1. Overview of the most important risks (continued)

Outsourcing risk

The Group 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 Group as a special financial institution. The internal documents that determine the management of this risk determine also 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.

The central records of outsourced activities have been established and reports on materially significant outsourced activities are submitted to the Management Board and the Supervisory Board of the Bank on annual basis.

24.2. Strategy and risk management systems

The Supervisory Board is responsible for monitoring the appropriateness and effectiveness of the risk management process in the Group. The Supervisory Board adopts HBOR's Risk Management Strategy that lays out the main principles and standards of risk management and defines the tendency towards risk-taking.

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

Risk management 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 Liquidity Risk Management Ordinance, the Currency Risk Management Procedures and the Interest Rate Risk Management Procedures, the Assets and Liabilities Management Policies as well as other documents of the Bank that regulate this area,
- **Credit Risk Evaluation and Measurement Committee** – manages credit risk within the framework set through accepted Loan Policies, Credit Risk Management Ordinance, methodologies, ordinances 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 Change Management Committee** – manages business changes (co-ordination of procedures for the suggestion, approval, monitoring and implementation of business changes) in order to reduce risks associated with the implementation of business changes.

Organizational unit for Risk Management

The Risk Management unit is organised as a functionally and organizationally separate and independent organizational unit for the control of business risks, which is directly responsible to the Management Board. This organisational unit is responsible for defining, evaluating or measuring, monitoring and controlling the risks to which the Group is exposed in the course of its business.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.2. Strategy and risk management systems (continued)

Organizational unit for Risk Management (continued)

The Risk Management unit carries out its role by performing risk analyses and evaluations or measurements, developing risk management ordinances, procedures and methodologies, supervising and monitoring their application, recommending and controlling the accepted exposure limits, giving suggestions and recommendations for adequate risk management as well as reporting to the relevant authorities.

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 and Croatian National Bank, European regulations and Basel Committee recommendations applicable to the Bank as a special financial institution.

Risk measurement and reporting systems

When assessing or measuring risk, the Group takes into account historical data, business plans, current and expected market conditions and the specific characteristics of the Group as a special financial institution. The results of risk assessments or measurements, analyses carried out and stress test are presented at the meetings of the Risk Management Committee, the Management Board and the Supervisory Board. For the purpose of risk monitoring and control, systems of limits are introduced for the management of credit risk, liquidity risk, interest rate risk in the Bank's book and currency risk.

Bodies in charge are systematically reported on the quality of the loan portfolio, high exposure and the highest permissible exposure, regulatory capital adequacy, collection of receivables and risk placements, changes in internal ratings of commercial banks and measures taken in case of rating deterioration, a number of liquidity status indicators and projections of open foreign currency positions, possible losses by significant currencies, interest rate gap, projections of average weighted rates for sources and placements of financial institutions, etc. The reporting dynamics and the risk measurement and assessment methodologies are prescribed by the Group's internal acts.

24.3. Credit risk

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

The credit risk management system is a crucial part of the Group's business policy and it is an important strategic factor of business conduct, and therefore this area is regulated by a separate act - Credit risk management ordinance, that are applied on all phases of the credit process (from the development of new bank products or from the credit application, monitoring of the client's business operations until the final loan repayment).

Credit risk management ordinance is a comprehensive document that includes the methodologies intended for the assessment of operations of different client target groups.



Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

In the case of direct financing, the Group uses the Credit risk evaluation methodology (for loans over HRK 1,500 thousand) or the Credit scoring methodology (for loans below HRK 1,500 thousand) to determine creditworthiness. The Credit scoring methodology is used to determine creditworthiness of clients that belong to the "small portfolio" and contains five scoring models: placements up to HRK 300 thousand to companies, crafts businesses and farmers, placements to start-ups up to HRK 300 thousand, placements from HRK 300 thousand to HRK 1,500 thousand to companies, placements to start-ups from HRK 300 thousand to HRK 1,500 thousand and placements from HRK 300 thousand to HRK 1,500 thousand for all other entrepreneurs.

The Credit Rating Assessment Methodology is used for the assessment of the risk of the clients that have been classified to the portfolio of individually significant clients, i.e. the loans exceeding HRK 1,500 thousand. The risk assessment can be contained in the assessment of client creditworthiness, assessment of investment project success and assessment of client creditworthiness containing analysis of future operations.

Pursuant to the HBOR Act, the Group on-lends part of its placements via commercial banks or leasing companies. The assessment of commercial banks is based on the Methodology for the Evaluation and Selection of Banks and the Methodology for the Evaluation and Selection of Foreign Banks, whereas the assessment of leasing companies is based on the Methodologies for the Evaluation and Selection of Leasing Companies. With an objective of facilitating the availability of HBOR's funds, the Group channels part of its placements through the risk sharing model, under which commercial banks and HBOR participate in the financing of clients in accordance with in advance agreed proportions.

The Group, as a developmental financial institution, supports growth and development of the Croatian economy through investment. For this reason, the clients mainly approach the Group with applications for credit financing of investment projects. In order to minimize risk and objectively estimate economic sustainability of the project as well as a return on investment, the Group is constantly improving existing organizational and technical solutions, reports and internal acts and proposes new organization regulations and implementation instructions.

By continuous monitoring and evaluation of the clients' businesses, the Group makes an effort to identify difficulties in their operation on a timely basis. For clients with difficulties, the Group tries to find appropriate ways to collect receivables by considering the possibilities of alternative repayment terms with a view to continue the production process and employment increase. Special emphasis is placed on identifying and monitoring reasons for bad debts, and procedures for prevention are built in operational procedures with a view to decreasing the share of high risk placements of the Group.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

For the purpose of risk monitoring and control, the systems of limits have been established for the management of credit risk. High exposure limits and amounts of maximum permitted credit exposure to individual borrowers and persons related to borrowers have been established.

24.3.1. Risk related to loan commitments

Bank clients can be issued guarantees and letters of credit with deferred payment terms (also from loan proceeds) in accordance with the same procedure as prescribed for loan commitments to direct clients.

All guarantees are monitored on the basis of validity periods, whereas letters of credit with deferred payment terms are monitored on the basis of maturities. In the case of calling for payment, the Group shall make a payment on behalf of client. For the Group, such obligations generate exposures to risks that are similar to credit risks and they are mitigated by the same procedures that are applied to loans.

24.3.2. Impairment assessment (Methodology for the impairment of financial instruments in effect since 1 January 2018)

Impairment is formed in accordance with the International Financial Reporting Standard 9, documents made by CNB applicable to HBOR and ordinances and methodologies regulating the Group's operations.

On the basis of the assessed level of credit risk and the manner of calculating expected credit losses, clients are allocated to the following categories:

- Stage 1 – includes all clients with low credit risk and clients with respect to which no significant increase in credit risk has been established,
- Stage 2 – includes all clients with respect to which a significant increase in credit risk since initial recognition has been established
- Stage 3 – includes clients in default, i.e. clients with respect to which there is objective evidence of value impairment as well as purchased or originated credit-impaired (POCI) financial assets.

During the contractual relationship with a client, the level of expected credit losses of client is estimated. The estimation is carried out on the basis of the following three criteria:

- Debtor's creditworthiness
- Due fulfilment of obligations, and
- Quality of collateral.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

24.3.2. Impairment assessment (Methodology for the impairment of financial instruments in effect since 1 January 2018) (continued)

For the entire duration of contractual relationship, debtor's creditworthiness is assessed in order to identify possible changes in the client's (debtor's) financial position, i.e. the probability of deterioration in its creditworthiness. When establishing client's creditworthiness, the group of related entities is also taken into account due to the effect of contamination, i.e. the possibility of the transfer of risk among related entities, and the creditworthiness of client is monitored through:

- Changes in financial rating of client and entities related to client,
- Criteria whose objective is to identify financial difficulties of client,
- Criteria contained in the client watch list, and
- Criteria for identification of increased credit risk.

A client is considered to duly meet its obligations if it settles all of its obligations fully (principal, interest, commissions, fees and other charges) in the amounts and within the deadlines determined in the respective contracts, where all placements and of-balance sheet liabilities of a client are considered as one.

Collateral assessment is based on the quality of collateral and the assessed amount as well as expected period of collection through collateral.

24.3.2.1. Definition of default status and exit from default status

Default status of an individual client occurs when one or both of the following conditions are met:

- it is considered probable that client will not settle its obligations towards HBOR entirely without taking into account the possibility of collection through collateral activation,
- client is more than 90 days overdue in settling its due obligation under any significant loan liability. The significance threshold equals HRK 1,750 and is calculated on the client level by adding due obligations under all client placements.

When assessing the probability of a debtor not settling its obligations entirely, the following elements are considered:

- recognised impairment for credit losses due to identified significant deterioration in credit quality of debtor,
- selling of credit exposure at a considerable economic loss,
- rescheduling or restructuring of credit exposure owing to financial difficulties of debtor,
- bankruptcy or similar proceedings (pre-bankruptcy settlement, liquidation) against debtor,
- appointment of extraordinary administration, revoke of operating license, application of early intervention measures,
- cancellation of contract.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

24.3.2. Impairment assessment (Methodology for the impairment of financial instruments in effect since 1 January 2018) (continued)

24.3.2.1. Definition of default status and exit from default status (continued)

When determining a default status, in addition to the aforementioned, the relations within a group of related entities are also considered if the default status has been established with regard to one of the debtors within the respective group of related entities that results in the spreading of the default status on other entities within the same group.

All financial instruments of client in default status are classified to Stage 3.

Placements to clients in default status due to a material delay in the payment of obligations for more than 90 days can be classified to the rehabilitated category if 150 days have lapsed from the moment of non-existence of the default status trigger. During the 150-day trial period, client must not be more than 30 days overdue in the payment of obligations in a materially significant amount.

After the lapse of 150 days, only those clients are considered to have been cured who are found not to be in financial difficulties. If there are signs of default status recurrence, the status is not changed until a genuine and permanent improvement in the credit quality of client.

Restructured exposures caused by financial difficulties and repayment problems can be classified as cured after the lapse of two years from the last occurrence of the following events:

- restructuring day,
- default status establishment date,
- grace period expiry if approved under the restructuring process.

During the two-year trial period, the exposures that meet all of the following conditions can be classified to non-default status exposures:

- debtor has duly settled, upon maturity, at least the amount of restructured obligations in the amount of those due at the moment of the restructuring implementation,
- debtor has been regularly settling due obligations in accordance with the repayment schedule (or up to 30 days overdue),
- default status is not probable to occur,
- there are no overdue obligations after restructuring,
- there is no doubt that the debtor will continue to settle its obligations upon maturity.

All of the above conditions have to be satisfied also for the new placements to the same client. Only the placements to client that is not in financial difficulties can be reclassified to the cured category.

After all trial-period conditions have been satisfied, the financial instruments of cured clients can be reclassified to Stage 1.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

24.3.2. Impairment assessment (Methodology for the impairment of financial instruments in effect since 1 January 2018) (continued)

24.3.2.2. Bank's procedure of internal rating and probability of default (PD) assessment

The approach used for the modelling of PD is based on TTC (Through-the-Cycle) migration matrices for exposures in homogenous groups of direct borrowers and others. Risk categories (bucket) have been identified, and the movements of exposures among the aforementioned categories are analysed.

Risk categories for the aforementioned exposures are defined on the basis of the days overdue and the restructured exposure status. Before the modelling of PD, the data for the preceding 5-year period are collected.

On the occasion of the modelling of PD, the movement of exposures among the following categories is analysed:

- from 0 to 30 days overdue – category 1,
- from 31 to 90 days overdue – category 2,
- more than 90 days overdue and restructuring – default status event.

On the basis of the matrices of exposure movements from category to category, a PD 12-month value is calculated. PD marginal values are calculated by further multiplication of matrices and they are used for vector creation. PD borderline value vector is the basis for the calculation of a lifelong PD. The value of a lifelong PD depends on the tenor, i.e. the remaining period until maturity of individual exposure.

Approach based on external rating published by external credit rating agencies has been used for the calculation of PD for exposures from homogenous categories of financial institutions and central government and local and regional government.

For exposures to domestic financial institutions, owing to the fact that there is no external rating for all financial institutions in the Group portfolio, the existing internal ratings for domestic financial institutions have been mapped against the external rating, where a financial institution that has an external rating has been used as the mapping starting point, due to which the Group's internal rating has been made equal to the rating of S&P: "BB". In this way, the upper limit has been established for domestic financial institutions at the level of the government rating. Distribution of PD value for the other internal ratings is determined on the basis of the method of linear interpolation.

Ratings of external credit rating agencies are used for exposures to foreign financial institutions and, therefore, the appropriate PD value from their matrices is used, and if non-existing, the internal rating is used, i.e. the rules are applied that are identical to those applied to domestic financial institutions.

The value of 12-month PD is assessed by multiplying TTC matrix with itself. The value of lifelong PD is the cumulative value of marginal PD values or the sum of borderline PD values depending on the exposure tenor.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

24.3.2. Impairment assessment (Methodology for the impairment of financial instruments in effect since 1 January 2018) (continued)

24.3.2.3. Exposure at default

For the purpose of modelling exposures at the moment of the occurrence of default status (Exposure at Default, hereinafter: EAD), or for the purpose of calculating credit conversion parameter (Credit Conversion Factor, hereinafter: CCF) and prepayment ratio, the data for the preceding five-year period are taken into account.

Pursuant to the mentioned historical data, the established ratio of premature collection almost equals zero and the loan conversion factor equals 1.

EAD is calculated for each contract. There are two approaches to the calculation of EAD:

- if there is a repayment schedule for exposure – based on the cash flow from the repayment schedule,
- if there is no repayment schedule for exposure – based on exposure amount on the reporting date.

For exposures classified in risk stage 1 and for exposures due, EAD is equal to the current exposure.

For exposures not yet due, lifelong EAD is calculated based on the repayment schedule, taking into account the amounts and the maturity period, but not later than until the final date of exposure maturity (tenor).

24.3.2.4. Loss given default

For groups of direct borrowers and others, loss at the moment of occurrence of the status of non-fulfilment of obligations (Loss Given Default, hereinafter: LGD) is estimated based on transactions after the date of occurrence of loss given default. Each transaction is discounted on the date of occurrence of loss given default by an appropriate discount rate, and the discount factor depends on the time elapsed. All increases after the date of occurrence of loss given default are cumulated with an individual exposure. The result of the mentioned calculation is the collection rate for each exposure in a homogenous group, and the total collection rate for a single homogenous group is comprised of the weighted average of collection rates of all individual exposures.

The probability of exit from the loss given default status is also taken into consideration in the calculation of LGD.

A report of external credit rating agencies is used as foundation for determining LGDs for the groups central government and local and regional government and financial institutions. In the annual reports on the occurrence of loss given default and collection status, credit rating agencies publish both historical and market rates of collection. The market rate of collection is the market price of a bond as compared to its value immediately before or at the moment of bond default. Based on market rates of collection for senior unsecured debt, issuer-weighted recovery rate is determined.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

24.3.2. Impairment assessment (Methodology for the impairment of financial instruments in effect since 1 January 2018) (continued)

24.3.2.5. Significant increase in credit risk

For the purpose of identifying an increased credit risk, changes for all clients of the Group are monitored continuously, but at least once a year. All placements to the client, where an increased credit risk has been identified or in case of individually significant clients, whose exposure exceeds HRK 1,500 thousand and are on the client watch list, on the next reporting date, all financial instruments of the client with increased credit risk are classified to stage 2 based on the observed criteria such as:

- client's delay in the settlement of any significant obligation due towards HBOR more than 30 days (and less than 90 days),
- the client is in financial difficulties, but is not in LGD status,
- deterioration of rating, low credit rating of the client,
- non-compliance with contractual provisions
- loss of key buyers or suppliers etc.

Exit from the increased credit risk status is conditional on non-existence of all the criteria based on which the client has been grouped into the respective status upon the occurrence of the risk, and verification of all indicators is made at least once a year within the framework of the annual monitoring of the client. Deactivation of a portion of indicators can be carried out after six months. Indicators of an increased credit risk are active for a year, after which they have to be checked, and based on the monitoring results, either reactivated or deactivated. The result of any change is either the reclassification of financial instruments of the client to stage 1 or its stay in stage 2.

Financial instruments of the client with an investment rating of external credit rating agencies are deemed financial instruments of low credit risk. All exposures to the Republic of Croatia and units of local and regional government (ULRG), the Croatian National Bank, the European Investment Bank (EIB) and other development banks are also deemed financial instruments of clients with low credit risk. Financial instruments of clients with low credit risk are always grouped into stage 1.

24.3.2.6. Grouping financial assets measured on a collective basis

Credit risk is evaluated on a collective basis for all clients classified into risk stages 1 and 2 as well as for clients in the risk stage 3 belonging to the small loan portfolio. The clients belonging to the small loan portfolio are clients to which HBOR is exposed in the gross amount that is equal or less than HRK 1,500 thousand.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

24.3.2. Impairment assessment (Methodology for the impairment of financial instruments in effect since 1 January 2018) (continued)

24.3.2.6. Grouping financial assets measured on a collective basis (continued)

For the purpose of identifying a significant increase in credit risk and recognition of loss allowances for impairment on a collective basis, financial instruments are grouped into the following groups, based on the common features of credit risk, for the purpose of easier evaluation of a significant increase in credit risk:

- financial institutions,
- central government and local and regional government,
- direct borrowers – large,
- direct borrowers – small and medium-sized,
- direct borrowers – micro,
- direct borrowers – citizens,
- others.

By grouping financial instruments into homogeneous groups, it is ensured that in case of a significant increase in credit risk, the goal of recognising expected credit losses during the entire lifetime of a financial instrument is attained, even if the evidence on such significant increase in credit risk is still not available on the level of an individual instrument.

24.3.3. Analysis of input for ECL model within the framework of impact of macroeconomic conditions on PD

When including any information about the future, available sources (Croatian National Bank, Croatian Bureau of Statistics) on macroeconomic conditions are used with a view to projecting their impact on the current value of risk parameters.

Based on a historical analysis of impact of macroeconomic conditions and the available macroeconomic forecasts, a potential impact of future movement of macroeconomic conditions on the value of risk parameters is established by using the scenarios with related probabilities of occurrence of an individual scenario.

When estimating expected credit losses through the application of a previous experience on credit losses, the data on earlier credit losses rates are applied to the formed homogenous groups, and through the application of a certain method, connecting of a single group of financial instruments with the data on earlier experience on credit losses in the groups of financial instruments with similar characteristics of credit risk is made possible, as well as with important relevant data reflecting the current status.

The expected credit losses reflect the Group's expectations in respect of credit losses. However, when the Group, during the estimation of such expected credit losses, considers all reasonable and reliable data that are available with no necessary costs and efforts, the Group also considers appropriate market data on the credit risk of a certain financial instrument or similar financial instruments.

For the calculation of expected credit losses, the Group uses a large number of macroeconomic conditions, of which for two of them, correlations on PDs have been established per individual homogenous groups: GDP and exchange rate.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

24.3.3. Analysis of input for ECL model within the framework of impact of macroeconomic conditions on PD (continued)

In order to determine the impact of future macroeconomic conditions on expected credit losses, by analysis based on historical data, the connection between macroeconomic conditions and PD is identified. After that, the impact of macroeconomic forecasts on PD values is estimated and the ratio is calculated, by means of which the estimated value of PD in two scenarios, an optimistic and a pessimistic one, is corrected.

24.3.4. Quantitative analysis of the reliability of the information used to calculate the ECL allowance

For the application of macroeconomic factors, the Bank uses a methodology with the level of reliability of 90%.

24.3.5. Overview of modified and restructured loans

Any amendment to the contractual provisions resulting in the conversion of contractual cash flows from financial assets is deemed to be modification.

A change of placement terms and conditions includes changes to certain contractual terms defined, mostly for the purpose of adaptation to changes during the implementation of an investment, and possibly also during repayments, and not caused by financial difficulties of the client. The amended terms would most frequently be accepted when approved if known or are the result of circumstances not controlled by the client.

Any changes in contractual obligations, by which a concession is made to the client that is considered to be in financial difficulties, are deemed to be rescheduling or restructuring. Concession may relate to any of the following measures:

- change of earlier contractual terms and conditions that are considered impossible to be met by the client and lead to the loss of its ability to settle liabilities and which would not be approved if the borrower had no financial difficulties (e.g. interest rate reduction, reduction or cancellation of interest income, change in principal amount, change or prolongation of repayment terms etc.)
- complete or partial refinancing of placements that would not be approved if the debtor had no financial difficulties.

Evidence on concession includes the following:

- the difference in favor of the client between the changed terms and conditions of the contract and former terms and conditions of the contract,
- inclusion of more favorable terms and conditions in the changed contract as compared to the terms and conditions that other debtors with a similar risk profile in the Bank portfolio could have obtained.

Rescheduling is considered any change of the originally agreed loan terms and conditions due to temporary financial difficulties of the client. Restructuring is considered any change of the originally agreed loan terms and conditions due to significant financial difficulties of the client that needs financial, business and operational restructuring, i.e. the client that is already in default.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

24.3.6. Analysis of risk concentration

Through its development loan programmes, the Group encompasses the area of the entire Republic of Croatia with emphasis on supported areas. Credit risk is spread across geographic areas, industries, sectors and loan programmes. The Group seeks to avoid excessive concentration of credit risk and support the development of less developed areas of the Republic of Croatia through more favorable terms and conditions and new loan programmes (products) in accordance with the national strategy of development of certain activities.

Through financing of different sectors by stimulating production and development with the purpose of developing the Croatian economy, the Group is creating a better base for repayment of loans and minimization of risk.

As of 31 December 2018, the highest credit exposure of the Group and the Bank to one debtor equalled HRK 2,883,122 thousand (31 December 2017: HRK 2,536,756 thousand for the Group and for the Bank) without considering the effect of mitigation through collateral received.

As a special financial institution, the Bank performs its development role by granting loans to final borrowers via commercial banks with which it has entered into co-operation agreements. Since the exposure towards some of the banks has reached the maximum permitted level, the Bank, in order to be able to continue performing its development role and make the loans accessible to as many final borrowers as possible, has an approval from the Supervisory Board for an increase in the exposure towards the banks and their associated entities that have, in accordance with HBOR's internal methodology, been assigned a high rating. The exposure level is maintained by using all instruments and techniques available for mitigating HBOR's exposure towards the banks.

This exposure increase approved by the Supervisory Board was used by the Bank for further operating activities carried out with two banks.

24.3.7. Risk-Sharing Model

The Risk-Sharing Model covers the manner of implementing HBOR's loan programmes in cooperation with commercial banks, where HBOR assumes a portion of direct lending risk (e.g. 50%), whereas the commercial bank assumes the risk associated with the other part of the loan (irrespective of whether it is financed from HBOR's funds or from commercial bank's funds).

The commercial bank takes the role of the administrative payment and collateral agent and reports to HBOR monthly and quarterly, on the basis of the business cooperation agreement executed between the commercial bank and HBOR, on any changes in creditworthiness of client, changes in provisions, changes in the value of collateral, on whether payments are made duly, on pre-bankruptcy and bankruptcy proceedings and on any other changes in the operations of clients and the repayments of placements.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

24.3.7. Risk-Sharing Model (continued)

There are several groups/types of risk-sharing model as follows:

- Initially, the sharing of risk with banks was launched through the programmes of the Government of the Republic of Croatia as a promotional measure aimed at strengthening the liquidity of the economy in the economic crisis period. During that time, three risk-sharing models were implemented: the Model A, the Model A+ and the Economy Development Programme.

Due to the scope of activities and the necessity of exceptionally fast action by HBOR, within the framework of the mentioned loan programmes, commercial banks as administrative, payment and collateral agents submitted to HBOR a shortened application form, and consequently, a shortened loan application procedure was adopted.

Further to the shortened procedure, in the mentioned loan programmes, HBOR had not initially entered collaterals in its business records, because it was the obligation of commercial banks to take charge of, and to activate, the collaterals. Subsequently, in some cases, HBOR entered collaterals in its business records if the agency business with commercial banks was terminated (e.g. because the banks sold their exposures etc.) or individual placements were restructured. Exposure under mentioned placements was entered in the business records of HBOR.

- Other loans under the risk-sharing models under the HBOR loan programmes (primarily investment and restructuring loans, and to a lesser extent loans for liquidity) are implemented in the manner that commercial banks included in the transactions still remain agents (administrative, payment and collateral agents), but HBOR implements a customary procedure as for any other direct loan and enters both exposures and collaterals into the business records at the moment of approving and contracting of placements.

24.3.8. Collaterals and other credit quality (creditworthiness) improvement

Collateral for the Bank's placements are:

- obligatory (bills of exchange and promissory notes),
- ordinary (property, ships, airplanes, bank guarantees, guarantees from the Republic of Croatia, guarantees from the local and regional authorities, guarantees from HAMAG-BICRO (Croatian Agency for SMSs, Innovation and Investment), insurance policy against political and/or commercial risks), and
- other collateral (movable property, bills of exchange or guarantees from other companies with solid creditworthiness, fiduciary or pledge of companies' equity instruments, repossession of cash receivables or assignment for collectible receivables, deposit repossession, restriction of transferability on insurance policy of assets and/or person, pledge on a trademark, etc.).

All Group placements have to be secured with obligatory collateral. Low-exposure placements must be secured with one obligatory instrument of collateral at least. The selection of eligible collaterals does not depend on the insurance ratio achieved only, but also on the risks identified, with marketable and more valuable collaterals being preferred.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

24.3.8. Collateral and other credit enhancements (creditworthiness) (continued)

Acceptable ordinary and other collateral are classified according to quality in five groups. The evaluation of collateral is based on quality, estimated based on marketability, documentation and possibility of supervision by the Bank as well as the possibility of enforced collection.

When deciding on loan approval, weak creditworthiness cannot be replaced by quality collateral, except when the security instruments are first class instruments: guarantees from the Republic of Croatia, guarantees of local/regional authorities (JLPS), guarantees from HAMAG-BICRO, loan insurance policy and when the Republic of Croatia, JLPS or other government authorities guarantee for clients implicitly.

For the purpose of mitigation of credit risk and reduction of business costs, and in compliance with the Act on the Croatian Bank for Reconstruction and Development, the Group approves part of its placements through financial institutions. As collateral for placements approved to final customers through financial institutions, the Group uses mandatory collateral from commercial banks/leasing companies. The financial institution is obliged to deliver them based on the Mutual business cooperation agreement, but not for each individual placement to the final customer based on that Agreement. In the individual contracts for placements to the final customers, the use of obligatory collateral delivered with the Agreement on mutual business cooperation is contracted. As the financial institutions take on the risk of default by the final customer, they are given the option to contract sufficient collateral with the final customer/leasing company.

Where the loan is approved through a commercial bank, depending on the financial institution's internal rating, the Bank contracts a sub-mortgage. In this case, either the commercial bank transfers the ownership over the collateral, while the Bank takes a mortgage over the same collateral, or the commercial bank forms a mortgage on the collateral, while the Bank takes a sub-mortgage on the same collateral.

By signing the Agreement on mutual business cooperation, a transfer of any claims the commercial bank may have towards the final customer is made to HBOR. Pursuant to the Agreement, the commercial bank authorises HBOR to unilaterally inform the bank in written form that, in the case of the commercial bank's insolvency or threat of liquidation, untimely repayments or default on the commitments agreed in the individual contract on interbank loan or actual (insolvent or regular) liquidation, the Bank assumes the receivable towards the final customer from the commercial bank, with the effect of assignment of receivables instead of contract fulfilment.

Additionally, based on the Agreement on mutual business cooperation and based on the said unilateral statement, the commercial bank authorises HBOR that HBOR may, without having to obtain any further consent or approval from the commercial bank, enter itself into all public registers, books or records as the creditor instead of the commercial bank under any security arrangements for assigned receivables as well as under any other proceedings.

From the moment of the assignment, the final customer is obliged to make all payments related to the assigned receivable directly to HBOR. Should the commercial bank receive any payments in the name of collection of receivables per particular placement, the bank is obliged to immediately transfer the funds to HBOR.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

24.3.8. Collateral and other credit enhancements (creditworthiness) (continued)

All direct placements are mainly secured with a transfer of ownership or with a mortgage over real estate and, if is possible, the Group obtains as security against credit risk a guarantee from HAMAG-BICRO, a guarantee from the local and regional authority, a guarantee from the Republic of Croatia, etc. In addition, the Bank covers part of its placements by portfolio guarantees in case of losses under individual placements included into guarantee portfolio.

The Group has the right to verify the appraisal of the collateral value and such a confirmed appraisal is considered as the final collateral value.

Depending on the type of collateral, the credit programme, the general terms of security or the decision of an authorised body, the Group has determined the necessary ratio of placements and collateral.

In case of the real estate, the necessary ratio of placement and estimated market value of the real estate should be 1:1.3, except in case of investments on the islands, supported areas where such ratio is 1:1.2. In case of moveable property, the necessary ratio of placement and estimated market value of moveable property should be 1:2. If a lower ratio of the collateral value than those prescribed is proposed, reasons and justifications of deviations from the prescribed ratio are explained.

The Bank continually monitors the value of collaterals by re-estimation or confirmation/verification of the value. Monitoring of the value of mortgaged real estate is performed once a year for business real estate, and every three years for residential buildings. The Bank has formed a special organizational unit for:

- evaluation and verification of already appraised and offered collateral (real estate and movables),
- technical and technological analysis of investment projects, and
- financial supervision over the withdrawal of loan funds for the purpose of the implementation of the investment project.

In the event that it is not possible for the Bank to collect from regular operations, the Bank starts collection from the collateral at its disposal. This encompasses initiating collection from the obligatory collateral, then from first-class, unconditional collateral payable on first demand and then from the mortgage or fiduciary ownership of the real estate or movable property, including their repossession with a view to decreasing or fully settling the Bank's receivables. The Bank does not use repossessed assets for business purposes.

In the case of risk-sharing models, collateral is created by commercial banks depending on the type of the model:

- in accordance with their own internal documents and good banking practices, and, consequently, HBOR's documents and collateral ratios prescribed in them do not apply,
- or collateral is created by commercial banks and HBOR for their respective shares in the loan in accordance with their own documents, decisions and/or procedures.

Write-offs

Write-off is performed in accordance with the Methodology for Write-Off of Receivables.

The criteria for considering the write-off of receivables can be classified into 3 main groups:

- A. exhaustion of all available forms of regular and compulsory collection;
- B. implementation of settlement, sale of receivables or restructuring of placements;
- C. difficult social and/or medical condition of the debtor (and/or the co-debtor, guarantor).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure

The table below shows the highest net credit risk exposures 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 | |
|---|-------------------|-------------------|-------------------|-------------------|
| | Highest exposure | Highest exposure | Highest exposure | Highest exposure |
| | 31 March 2019 | 31 December 2018 | 31 March 2019 | 31 December 2018 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | |
| Cash on hand and current accounts with banks | 555,441 | 944,415 | 551,364 | 941,069 |
| Deposits with other banks | 246,684 | 261,925 | 246,684 | 261,925 |
| Loans to financial institutions | 10,285,907 | 10,234,988 | 10,285,907 | 10,234,988 |
| Loans to other customers | 13,227,739 | 12,510,686 | 13,227,739 | 12,510,686 |
| Financial assets at fair value through profit or loss | 2,284 | 2,045 | 2,284 | 2,045 |
| Financial assets at fair value through other comprehensive income | 1,918,720 | 2,803,761 | 1,880,872 | 2,766,363 |
| Debt instruments at amortised cost | 1,365 | 1,363 | - | - |
| Other assets | 13,939 | 12,722 | 5,614 | 4,182 |
| Total | 26,252,079 | 26,771,905 | 26,200,464 | 26,721,258 |
| Guarantees and commitments | | | | |
| Guarantees issued in HRK | 80,400 | 33,576 | 80,400 | 33,576 |
| Issued guarantees in foreign currency | 1,193,888 | 1,822,396 | 1,193,888 | 1,822,396 |
| Undrawn loans | 3,978,557 | 3,291,032 | 3,978,557 | 3,291,032 |
| Other irrevocable contingent liabilities | 93 | 93 | 93 | 93 |
| Total | 5,252,938 | 5,147,097 | 5,252,938 | 5,147,097 |
| Total credit risk exposure | 31,505,017 | 31,919,002 | 31,453,402 | 31,868,355 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

| Group | Republic of Croatia | EU countries | Other countries | Total |
|---|---------------------|---------------|------------------|-------------------|
| 31 March 2019 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | |
| Cash on hand and current accounts with banks | 535,762 | 19,456 | 223 | 555,441 |
| Deposits with other banks | 221,601 | 25,083 | - | 246,684 |
| Loans to financial institutions | 10,285,907 | - | - | 10,285,907 |
| Loans to other customers | 12,449,004 | - | 778,735 | 13,227,739 |
| Financial assets at fair value through profit or loss | 2,284 | - | - | 2,284 |
| Financial assets at fair value through other comprehensive income | 1,918,720 | - | - | 1,918,720 |
| Debt instruments at amortised cost | 1,365 | - | - | 1,365 |
| Other assets | 6,886 | 7,002 | 51 | 13,939 |
| Total | 25,421,529 | 51,541 | 779,009 | 26,252,079 |
| Guarantees and commitments | | | | |
| Guarantees issued in HRK | 80,400 | - | - | 80,400 |
| Issued guarantees in foreign currency | 1,193,888 | - | - | 1,193,888 |
| Undrawn loans | 3,483,997 | - | 494,560 | 3,978,557 |
| Other irrevocable contingent liabilities | 93 | - | - | 93 |
| Total | 4,758,378 | - | 494,560 | 5,252,938 |
| Total credit risk exposure | 30,179,907 | 51,541 | 1,273,569 | 31,505,017 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

| Group | Republic of Croatia | EU countries | Other countries | Total |
|---|---------------------|---------------|------------------|-------------------|
| 31 December 2018 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | |
| Cash on hand and current accounts with banks | 929,211 | 14,740 | 464 | 944,415 |
| Deposits with other banks | 261,922 | 3 | - | 261,925 |
| Loans to financial institutions | 10,234,988 | - | - | 10,234,988 |
| Loans to other customers | 11,736,094 | - | 774,592 | 12,510,686 |
| Financial assets at fair value through profit or loss | 2,045 | - | - | 2,045 |
| Financial assets at fair value through other comprehensive income | 2,803,761 | - | - | 2,803,761 |
| Debt instruments at amortised cost | 1,363 | - | - | 1,363 |
| Other assets | 5,362 | 7,293 | 67 | 12,722 |
| Total | 25,974,746 | 22,036 | 775,123 | 26,771,905 |
| Guarantees and commitments | | | | |
| Guarantees issued in HRK | 33,576 | - | - | 33,576 |
| Issued guarantees in foreign currency | 1,822,396 | - | - | 1,822,396 |
| Undrawn loans | 2,788,456 | - | 502,576 | 3,291,032 |
| Other irrevocable contingent liabilities | 93 | - | - | 93 |
| Total | 4,644,521 | - | 502,576 | 5,147,097 |
| Total credit risk exposure | 30,619,267 | 22,036 | 1,277,699 | 31,919,002 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

| Bank 31 March 2019 | Republic of Croatia HRK '000 | EU countries HRK '000 | Other countries HRK '000 | Total HRK '000 |
|---|------------------------------------|-----------------------------|--------------------------------|-------------------|
| Assets | | | | |
| Cash on hand and current accounts with banks | 531,685 | 19,456 | 223 | 551,364 |
| Deposits with other banks | 221,601 | 25,083 | - | 246,684 |
| Loans to financial institutions | 10,285,907 | - | - | 10,285,907 |
| Loans to other customers | 12,449,004 | - | 778,735 | 13,227,739 |
| Financial assets at fair value through profit or loss | 2,284 | - | - | 2,284 |
| Financial assets at fair value through other comprehensive income | 1,880,872 | - | - | 1,880,872 |
| Other assets | 5,556 | 7 | 51 | 5,614 |
| Total | 25,376,909 | 44,546 | 779,009 | 26,200,464 |
| Guarantees and commitments | | | | |
| Guarantees issued in HRK | 80,400 | - | - | 80,400 |
| Issued guarantees in foreign currency | 1,193,888 | - | - | 1,193,888 |
| Undrawn loans | 3,483,997 | - | 494,560 | 3,978,557 |
| Other irrevocable contingent liabilities | 93 | - | - | 93 |
| Total | 4,758,378 | - | 494,560 | 5,252,938 |
| Total credit risk exposure | 30,135,287 | 44,546 | 1,273,569 | 31,453,402 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

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

| Bank 31 December 2018 | Republic of Croatia HRK '000 | EU countries HRK '000 | Other countries HRK '000 | Total HRK '000 |
|---|------------------------------------|-----------------------------|--------------------------------|-------------------|
| Assets | | | | |
| Cash on hand and current accounts with banks | 925,865 | 14,740 | 464 | 941,069 |
| Deposits with other banks | 261,922 | 3 | - | 261,925 |
| Loans to financial institutions | 10,234,988 | - | - | 10,234,988 |
| Loans to other customers | 11,736,094 | - | 774,592 | 12,510,686 |
| Financial assets at fair value through profit or loss | 2,045 | - | - | 2,045 |
| Financial assets at fair value through other comprehensive income | 2,766,363 | - | - | 2,766,363 |
| Other assets | 4,106 | 9 | 67 | 4,182 |
| Total | 25,931,383 | 14,752 | 775,123 | 26,721,258 |
| Guarantees and commitments | | | | |
| Guarantees issued in HRK | 33,576 | - | - | 33,576 |
| Issued guarantees in foreign currency | 1,822,396 | - | - | 1,822,396 |
| Undrawn loans | 2,788,456 | - | 502,576 | 3,291,032 |
| Other irrevocable contingent liabilities | 93 | - | - | 93 |
| Total | 4,644,521 | - | 502,576 | 5,147,097 |
| Total credit risk exposure | 30,575,904 | 14,752 | 1,277,699 | 31,868,355 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

Concentration of assets and guarantees and commitments, according to industry, net exposure, before and after the effect of mitigation through collateral received:

| Group | Highest exposure | Highest exposure after the effect of mitigation through collateral received | Highest exposure | Highest exposure after the effect of mitigation through collateral received |
|---|---------------------------|---|------------------------------|---|
| | 31 March 2019 HRK '000 | 31 March 2019 HRK '000 | 31 December 2018 HRK '000 | 31 December 2018 HRK '000 |
| Financial intermediation and insurance | 13,124,706 | - | 13,037,974 | - |
| Water and electric supply and other infrastructure | 1,907,177 | 1,610,126 | 1,381,948 | 1,029,981 |
| Tourism | 3,116,865 | 68,118 | 3,113,457 | 77,346 |
| Transport, warehousing and connections | 1,895,327 | 669,505 | 1,955,578 | 695,034 |
| Shipbuilding | 2,349,331 | 273,258 | 2,995,154 | 382,101 |
| Agriculture and fishery | 552,732 | 168,964 | 517,983 | 129,394 |
| Food industry | 812,904 | 144,904 | 824,235 | 117,622 |
| Construction industry | 1,062,312 | 88,668 | 1,011,185 | 66,009 |
| Other industry | 450,520 | 123,045 | 460,568 | 131,022 |
| Public administration | 3,404,316 | 3,403,737 | 3,788,365 | 3,788,365 |
| Education | 42,622 | 38,238 | 43,562 | 39,163 |
| Manufacture of basic metals and fabricated metal products, except machinery and equipment | 231,016 | 16,991 | 219,087 | 19,227 |
| Manufacture of chemicals and chemical products | 73,862 | 39,649 | 74,185 | 54,370 |
| Manufacture of other non-metallic mineral products | 199,328 | 64,920 | 207,541 | 65,207 |
| Pharmaceutical industry | 438,644 | 929 | 461,803 | 911 |
| Other | 1,843,355 | 321,508 | 1,826,377 | 312,829 |
| Total credit risk exposure | 31,505,017 | 7,032,560 | 31,919,002 | 6,908,581 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

Concentration of assets and guarantees and commitments, according to industry, net exposure, before and after the effect of mitigation through collateral received:

| Bank | Highest exposure | Highest exposure after the effect of mitigation through collateral received | Highest exposure | Highest exposure after the effect of mitigation through collateral received |
|---|---------------------------|---|------------------------------|---|
| | 31 March 2019 HRK '000 | 31 March 2019 HRK '000 | 31 December 2018 HRK '000 | 31 December 2018 HRK '000 |
| Financial intermediation and insurance | 13,113,796 | - | 13,027,345 | - |
| Water and electric supply and other infrastructure | 1,907,177 | 1,610,126 | 1,381,948 | 1,029,981 |
| Tourism | 3,116,865 | 68,118 | 3,113,457 | 77,346 |
| Transport, warehousing and connections | 1,895,327 | 669,505 | 1,955,578 | 695,034 |
| Shipbuilding | 2,349,331 | 273,258 | 2,995,154 | 382,101 |
| Agriculture and fishery | 552,689 | 168,921 | 517,943 | 129,354 |
| Food industry | 812,799 | 144,799 | 824,134 | 117,521 |
| Construction industry | 1,062,231 | 88,588 | 1,011,110 | 65,933 |
| Other industry | 450,132 | 122,657 | 460,205 | 130,659 |
| Public administration | 3,365,604 | 3,365,025 | 3,750,268 | 3,750,268 |
| Education | 42,622 | 38,238 | 43,562 | 39,163 |
| Manufacture of basic metals and fabricated metal products, except machinery and equipment | 230,905 | 16,880 | 218,982 | 19,122 |
| Manufacture of chemicals and chemical products | 73,844 | 39,631 | 74,166 | 54,351 |
| Manufacture of other non-metallic mineral products | 199,310 | 64,901 | 207,522 | 65,189 |
| Pharmaceutical industry | 437,716 | - | 460,893 | - |
| Other | 1,843,054 | 321,207 | 1,826,088 | 312,540 |
| Total credit risk exposure | 31,453,402 | 6,991,854 | 31,868,355 | 6,868,562 |

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 Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

The fair value of collateral for the Group as of 31 March 2019 amounted to HRK 24,472,457 thousand (31 December 2018: HRK 25,010,421 thousand) and for the Bank HRK 24,461,548 thousand (31 December 2018: HRK 24,999,793 thousand).

In the total net highest exposure of the Bank after the effect of mitigation through collateral received as of 31 March 2019, the credit risk of HRK 4,896,761 thousand (31 December 2018: HRK 5,287,160 thousand) is not covered with ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 2,069,705 thousand (31 December 2018: HRK 1,572,804 thousand), from local (regional) authorities of HRK 670,229 thousand (31 December 2018: HRK 647,039 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 222,016 thousand (31 December 2018: HRK 228,404 thousand), government funds of HRK 40 thousand (31 December 2018: HRK 85 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 1,880,073 thousand (31 December 2018: HRK 2,765,595 thousand). In addition, an amount of HRK 54,698 thousand (31 December 2018: HRK 73,233 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 bank.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

Credit risk quality according to type of financial assets

Credit risk analysis, net exposure, 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 risk category, is as follows:

| Group | Net exposure of portfolio - risk Stage 1 HRK '000 | Net exposure of portfolio - risk Stage 2 HRK '000 | Net exposure of portfolio - risk Stage 3 HRK '000 | Net exposure of portfolio of risk POCI HRK '000 | Not subject to IFRS 9 HRK '000 | Net exposure of total portfolio HRK '000 | Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 HRK '000 | Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 HRK '000 | Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 HRK '000 | Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000 | Not subject to IFRS 9 after the effect of mitigation through collateral received HRK '000 | Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000 |
|---|---|---|---|---|--------------------------------|--|---|---|---|--|---|---|
| 31 March 2019 | | | | | | | | | | | | |
| Assets | | | | | | | | | | | | |
| Cash on hand and current accounts with banks | 555,441 | - | - | - | - | 555,441 | - | - | - | - | - | - |
| Deposits with other banks | 246,684 | - | - | - | - | 246,684 | - | - | - | - | - | - |
| Loans to financial institutions | 10,151,429 | 110,275 | 24,203 | - | - | 10,285,907 | - | - | - | - | - | - |
| Loans to other customers | 10,011,610 | 1,201,644 | 1,746,187 | 268,298 | - | 13,227,739 | 3,570,026 | 153,068 | 267,899 | 12,872 | - | 4,003,865 |
| Financial assets at fair value through profit or loss | - | - | - | - | 2,284 | 2,284 | - | - | - | - | 2,284 | 2,284 |
| Financial assets at fair value through other comprehensive income | 1,917,921 | - | 799 | - | - | 1,918,720 | 1,917,921 | - | 799 | - | - | 1,918,720 |
| Debt instruments at amortised cost | 1,365 | - | - | - | - | 1,365 | 1,365 | - | - | - | - | 1,365 |
| Other assets | 12,519 | 63 | 1,355 | 2 | - | 13,939 | 2,925 | 63 | 1,200 | - | - | 4,188 |
| Total | 22,896,969 | 1,311,982 | 1,772,544 | 268,300 | 2,284 | 26,252,079 | 5,492,237 | 153,131 | 269,898 | 12,872 | 2,284 | 5,930,422 |
| Guarantees and commitments | | | | | | | | | | | | |
| Guarantees issued in HRK | 60,060 | - | 20,340 | - | - | 80,400 | 60,060 | - | - | - | - | 60,060 |
| Issued guarantees in foreign currency | 43,060 | - | 1,150,828 | - | - | 1,193,888 | 1,470 | - | 187,823 | - | - | 189,293 |
| Undrawn loans | 3,382,964 | 595,418 | - | 175 | - | 3,978,557 | 757,650 | 95,042 | - | - | - | 852,692 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 | 93 | - | - | - | - | 93 |
| Total | 3,486,177 | 595,418 | 1,171,168 | 175 | - | 5,252,938 | 819,273 | 95,042 | 187,823 | - | - | 1,102,138 |
| Total credit risk exposure | 26,383,146 | 1,907,400 | 2,943,712 | 268,475 | 2,284 | 31,505,017 | 6,311,510 | 248,173 | 457,721 | 12,872 | 2,284 | 7,032,560 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

i. Allowances

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument by risk category:

Cash on hand and current accounts with banks

| Group | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 March 2019 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2019 | 1,668 | - | - | - | 1,668 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Increase of loss allowance | 568 | - | - | - | 568 |
| Release of loss allowance | (1,269) | - | - | - | (1,269) |
| Net foreign exchange gains on loss allowances | - | - | - | - | - |
| Balance at 31 March 2019 | 967 | - | - | - | 967 |

| Group | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 December 2018 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2018 | 41 | - | - | - | 41 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Increase of loss allowance | 2,217 | - | - | - | 2,217 |
| Release of loss allowance | (592) | - | - | - | (592) |
| Net foreign exchange gains on loss allowances | 2 | - | - | - | 2 |
| Balance at 31 December 2018 | 1,668 | - | - | - | 1,668 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

i. Allowances (continued)

Deposits with other banks

Group

| 31 March 2019 | Stage 1 HRK '000 | Stage 2 HRK '000 | Stage 3 HRK '000 | POCI HRK '000 | Total HRK '000 |
|---|-----------------------------|-----------------------------|-----------------------------|--------------------------|---------------------------|
| Balance at 1 January 2019 | 1,361 | - | - | - | 1,361 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Increase of loss allowance | 2,371 | - | - | - | 2,371 |
| Release of loss allowance | (2,573) | - | - | - | (2,573) |
| Net foreign exchange gains on loss allowances | 2 | - | - | - | 2 |
| Balance at 31 March 2019 | 1,161 | | | | 1,161 |

Group

| 31 December 2018 | Stage 1 HRK '000 | Stage 2 HRK '000 | Stage 3 HRK '000 | POCI HRK '000 | Total HRK '000 |
|--|-----------------------------|-----------------------------|-----------------------------|--------------------------|---------------------------|
| Balance at 1 January 2018 | 152 | - | - | - | 152 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Increase of loss allowance | 1,465 | - | - | - | 1,465 |
| Release of loss allowance | (249) | - | - | - | (249) |
| Net foreign exchange losses on loss allowances | (7) | - | - | - | (7) |
| Balance at 31 December 2018 | 1,361 | | | | 1,361 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

i. Allowances (continued)

Loans to financial institutions

| Group | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 March 2019 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2019 | 78,126 | 20,941 | 18,087 | - | 117,154 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Increase of loss allowance | 13,600 | 278 | 7 | - | 13,885 |
| Release of loss allowance | (13,307) | (6,105) | (2,797) | - | (22,209) |
| Unwind – changes due to the lapse of time | - | - | 50 | - | 50 |
| Loss allowances transferred from/to loans to other customers | (2) | - | - | - | (2) |
| Net foreign exchange gains on loss allowances | 38 | 16 | 8 | - | 62 |
| Balance at 31 March 2019 | 78,455 | 15,130 | 15,355 | - | 108,940 |

| Group | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 December 2018 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2018 | 76,581 | 33,937 | 20,502 | - | 131,020 |
| Transfer to Stage 1 | 89 | (89) | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | (727) | 727 | - | - |
| Increase of loss allowance | 39,481 | 3,594 | 2,485 | - | 45,560 |
| Release of loss allowance | (41,651) | (11,810) | (5,248) | - | (58,709) |
| Unwind – changes due to the lapse of time | - | - | 275 | - | 275 |
| Loss allowances transferred from/to loans to other customers | (4) | (24) | - | - | (28) |
| Acquisition of immovable property | - | - | - | - | - |
| Net foreign exchange losses on loss allowances | (553) | (272) | (139) | - | (964) |
| Balance at 31 December 2018 | 73,943 | 24,609 | 18,602 | - | 117,154 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

i. Allowances (continued)

Loans to other customers

| Group | | | | | |
|---|-----------------|-----------------|------------------|-----------------|------------------|
| 31 March 2019 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2019 | 351,878 | 494,557 | 2,469,639 | 64,222 | 3,380,296 |
| Transfer to Stage 1 | 1,130 | (667) | (463) | - | - |
| Transfer to Stage 2 | (34,574) | 35,695 | (1,121) | - | - |
| Transfer to Stage 3 | (166) | (29,260) | 29,426 | - | - |
| Increase of loss allowance | 58,108 | 57,508 | 166,411 | 10,820 | 292,847 |
| Release of loss allowance | (34,276) | (16,662) | (119,942) | (14,149) | (185,029) |
| Write-offs | - | - | (1,028) | - | (1,028) |
| Unwind – changes due to the lapse of time | 32 | 8 | 7,018 | 1,641 | 8,699 |
| Loss allowances transferred to/from loans to financial institutions | 2 | - | - | - | 2 |
| Acquisition of immovable property | - | - | (608) | - | (608) |
| Interest transferred from the off-balance sheet records | - | - | - | - | - |
| Sale of receivables | - | - | - | - | - |
| Other | - | - | 10 | - | 10 |
| Net foreign exchange gains on loss allowances | 292 | 451 | 3,209 | 649 | 4,601 |
| Balance at 31 March 2019 | 342,426 | 541,630 | 2,552,551 | 63,183 | 3,499,790 |

| Group | | | | | |
|---|------------------|------------------|------------------|-----------------|------------------|
| 31 December 2018 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2018 | 381,600 | 452,780 | 2,758,825 | - | 3,593,205 |
| Transfer to Stage 1 | 22,243 | (21,969) | (274) | - | - |
| Transfer to Stage 2 | (379,180) | 382,723 | (3,543) | - | - |
| Transfer to Stage 3 | (39,281) | (82,634) | 121,915 | - | - |
| Increase of loss allowance | 211,756 | 416,830 | 415,807 | 93,000 | 1,137,393 |
| Release of loss allowance | (445,286) | (104,673) | (714,670) | (83,925) | (1,348,554) |
| Write-offs | (2) | - | (42,028) | (1,228) | (43,258) |
| Unwind – changes due to the lapse of time | 337 | 213 | 51,357 | 5,182 | 57,089 |
| Loss allowances transferred to/from loans to financial institutions | 4 | 24 | - | - | 28 |
| Acquisition of immovable property | (5) | - | (984) | - | (989) |
| Interest transferred from the off-balance sheet records | - | - | 496 | - | 496 |
| Sale of receivables | - | - | - | - | - |
| Other | - | - | - | - | - |
| Net foreign exchange gains/(losses) on loss allowances | (5,082) | (2,196) | (8,466) | 630 | (15,114) |
| Balance at 31 December 2018 | (252,896) | 1,041,098 | 2,578,435 | 13,659 | 3,380,296 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

i. Allowances (continued)

Financial assets at fair value through other comprehensive income

| Group | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 March 2019 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2019 | 5,007 | - | 1,739 | - | 6,746 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | 235 | (235) | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Increase of loss allowance | 675 | - | 267 | - | 942 |
| Release of loss allowance | (2,242) | - | (250) | - | (2,492) |
| Net foreign exchange gains on loss allowances | 1 | - | 2 | - | 3 |
| Balance at 31 March 2019 | 3,676 | (235) | 1,758 | - | 5,199 |

| Group | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 December 2018 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2018 | 3,837 | 451 | - | - | 4,288 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | (1,739) | 1,739 | - | - |
| Increase of loss allowance | 4,032 | - | 1,293 | - | 5,325 |
| Release of loss allowance | (2,848) | - | - | - | (2,848) |
| Net foreign exchange losses on loss allowances | (14) | - | (5) | - | (19) |
| Balance at 31 December 2018 | 5,007 | (1,288) | 3,027 | - | 6,746 |

Other assets

| Group | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 March 2019 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2019 | 281 | - | 33,837 | - | 34,118 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | (7) | 7 | - | - |
| Increase of loss allowance | 41 | 2 | 94,093 | 3 | 94,139 |
| Release of loss allowance | (97) | (2) | (93,986) | (44) | (94,129) |
| Write-offs | - | - | - | - | - |
| Other adjustments | 1 | - | - | - | 1 |
| Net foreign exchange gain on loss allowances | - | - | 2 | - | 2 |
| Balance at 31 March 2019 | 226 | (7) | 33,953 | (41) | 34,131 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

i. Allowances (continued)

| Group | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 December 2018 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2018 | 140 | 4 | 13,079 | - | 13,223 |
| Transfer to Stage 1 | 8 | - | (8) | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | (9) | (9) | 18 | - | - |
| Increase of loss allowance | 395 | 2 | 26,958 | 1 | 27,356 |
| Release of loss allowance | (272) | (5) | (6,163) | (1) | (6,441) |
| Write-offs | - | - | (10) | - | (10) |
| Acquisition of immovable property | - | - | (14) | - | (14) |
| Other | (2) | - | - | - | (2) |
| Net foreign exchange gain on loss allowances | - | - | 6 | - | 6 |
| Balance at 31 December 2018 | 260 | (8) | 33,866 | - | 34,118 |

Guarantees and commitments

| Group | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 March 2019 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2019 | 9,096 | 65,168 | 175,996 | 11,023 | 261,283 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Increase of loss allowance | 10,958 | 4,080 | 112,800 | 104 | 127,942 |
| Release of loss allowance | (9,436) | (1,306) | (201,471) | (8,350) | (220,563) |
| Net foreign exchange gains on loss allowances | 6 | - | 596 | 12 | 614 |
| Balance at 31 March 2019 | 10,624 | 67,942 | 87,921 | 2,789 | 169,276 |

| Group | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 December 2018 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2018 | 20,203 | 749 | 28,395 | - | 49,347 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | (65,094) | 65,094 | - | - | - |
| Transfer to Stage 3 | - | (1) | 1 | - | - |
| Increase of loss allowance | 69,535 | 83,274 | 170,322 | 20,173 | 343,304 |
| Release of loss allowance | (79,902) | (19,787) | (24,364) | (9,140) | (133,193) |
| Net foreign exchange gains/(losses) on loss allowances | (193) | 382 | 1,645 | (9) | 1,825 |
| Balance at 31 December 2018 | (55,451) | 129,711 | 175,999 | 11,024 | 261,283 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

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

Credit risk analysis, net exposure, 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 risk category, is as follows:

| Group | Net exposure of portfolio - risk Stage 1 HRK '000 | Net exposure of portfolio - risk Stage 2 HRK '000 | Net exposure of portfolio - risk Stage 3 HRK '000 | Net exposure of portfolio of risk POCI HRK '000 | Not subject to IFRS 9 HRK '000 | Net exposure of total portfolio HRK '000 | Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 HRK '000 | Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 HRK '000 | Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 HRK '000 | Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000 | Not subject to IFRS 9 after the effect of mitigation through collateral received HRK '000 | Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000 |
|---|--|--|--|--|-----------------------------------|---|---|---|---|--|--|--|
| 31 December 2018 | | | | | | | | | | | | |
| Assets | | | | | | | | | | | | |
| Cash on hand and current accounts with banks | 944,415 | - | - | - | - | 944,415 | - | - | - | - | - | - |
| Deposits with other banks | 261,925 | - | - | - | - | 261,925 | - | - | - | - | - | - |
| Loans to financial institutions | 10,064,840 | 137,737 | 32,411 | - | - | 10,234,988 | - | - | - | - | - | - |
| Loans to other customers | 9,408,775 | 1,141,971 | 1,728,419 | 231,521 | - | 12,510,686 | 2,930,911 | 127,418 | 278,948 | 1,372 | - | 3,338,649 |
| Financial assets at fair value through profit or loss | - | - | - | - | 2,045 | 2,045 | - | - | - | - | 2,045 | 2,045 |
| Financial assets at fair value through other comprehensive income | 2,802,223 | 770 | 768 | - | - | 2,803,761 | 2,802,223 | 770 | 768 | - | - | 2,803,761 |
| Debt instruments at amortised cost | 1,363 | - | - | - | - | 1,363 | 1,363 | - | - | - | - | 1,363 |
| Other assets | 11,315 | 12 | 1,395 | - | - | 12,722 | 3,067 | 1 | 1,281 | - | - | 4,349 |
| Total | 23,494,856 | 1,280,490 | 1,762,993 | 231,521 | 2,045 | 26,771,905 | 5,737,564 | 128,189 | 280,997 | 1,372 | 2,045 | 6,150,167 |
| Guarantees and commitments | | | | | | | | | | | | |
| Guarantees issued in HRK | 13,236 | - | 20,340 | - | - | 33,576 | 12,371 | - | - | - | - | 12,371 |
| Issued guarantees in foreign currency | 31,756 | - | 1,790,640 | - | - | 1,822,396 | 1,469 | - | 293,997 | - | - | 295,466 |
| Undrawn loans | 2,654,591 | 604,066 | 22,193 | 10,182 | - | 3,291,032 | 318,481 | 110,058 | 21,945 | - | - | 450,484 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 | 93 | - | - | - | - | 93 |
| Total | 2,699,676 | 604,066 | 1,833,173 | 10,182 | - | 5,147,097 | 332,414 | 110,058 | 315,942 | - | - | 758,414 |
| Total credit risk exposure | 26,194,532 | 1,884,556 | 3,596,166 | 241,703 | 2,045 | 31,919,002 | 6,069,978 | 238,247 | 596,939 | 1,372 | 2,045 | 6,908,581 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

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

Credit risk analysis, net exposure, 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 risk category, is as follows (continued):

| Bank | | | | | | | Net exposure of portfolio after the effect of mitigation through collateral received | Net exposure of portfolio after the effect of mitigation through collateral received | Net exposure of portfolio after the effect of mitigation through collateral received | Net exposure of portfolio after the effect of mitigation through collateral received | Not subject to IFRS 9 after the effect of mitigation through collateral received | Net exposure of total portfolio after the effect of mitigation through collateral received |
|---|--|--|--|--|-----------------------|---------------------------------|--|--|--|--|--|--|
| 31 March 2019 | Net exposure of portfolio - risk Stage 1 | Net exposure of portfolio - risk Stage 2 | Net exposure of portfolio - risk Stage 3 | Net exposure of portfolio of risk POCI | Not subject to IFRS 9 | Net exposure of portfolio total | Stage 1 | Stage 2 | Stage 3 | POCI | HRK '000 | HRK '000 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | | | | | | | | | |
| Cash on hand and current accounts with banks | 551,364 | - | - | - | - | 551,364 | - | - | - | - | - | - |
| Deposits with other banks | 246,684 | - | - | - | - | 246,684 | - | - | - | - | - | - |
| Loans to financial institutions | 10,151,429 | 110,275 | 24,203 | - | - | 10,285,907 | - | - | - | - | - | - |
| Loans to other customers | 10,011,610 | 1,201,644 | 1,746,187 | 268,298 | - | 13,227,739 | 3,570,026 | 153,068 | 267,899 | 12,872 | - | 4,003,865 |
| Financial assets at fair value through profit or loss | - | - | - | - | 2,284 | 2,284 | - | - | - | - | 2,284 | 2,284 |
| Financial assets at fair value through other comprehensive income | 1,880,073 | - | 799 | - | - | 1,880,872 | 1,880,073 | - | 799 | - | - | 1,880,872 |
| Other assets | 4,194 | 63 | 1,355 | 2 | - | 5,614 | 1,433 | 63 | 1,197 | 2 | - | 2,695 |
| Total | 22,845,354 | 1,311,982 | 1,772,544 | 268,300 | 2,284 | 26,200,464 | 5,451,532 | 153,131 | 269,895 | 12,874 | 2,284 | 5,889,716 |
| Guarantees and commitments | | | | | | | | | | | | |
| Guarantees issued in HRK | 60,060 | - | 20,340 | - | - | 80,400 | 60,060 | - | - | - | - | 60,060 |
| Issued guarantees in foreign currency | 43,060 | - | 1,150,828 | - | - | 1,193,888 | 1,470 | - | 187,823 | - | - | 189,293 |
| Undrawn loans | 3,382,964 | 595,418 | - | 175 | - | 3,978,557 | 757,650 | 95,042 | - | - | - | 852,692 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 | 93 | - | - | - | - | 93 |
| Total | 3,486,177 | 595,418 | 1,171,168 | 175 | - | 5,252,938 | 819,273 | 95,042 | 187,823 | - | - | 1,102,138 |
| Total credit risk exposure | 26,331,531 | 1,907,400 | 2,943,712 | 268,475 | 2,284 | 31,453,402 | 6,270,805 | 248,173 | 457,718 | 12,874 | 2,284 | 6,991,854 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

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

In the total net highest exposure of the Group and the Bank after the effect of mitigation through collateral received, the amount of loans to other customers of HRK 3,015,487 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 2,068,544 thousand, local and regional authorities of HRK 670,229 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 222,016 thousand. An additional amount of HRK 54,698 thousand relates to receivables from majority state-owned companies (controlling influence).

The amount of financial assets at fair value through other comprehensive income and debt instruments at amortised cost is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 1,918,504 thousand for the Group and HRK 1,880,073 thousand for the Bank.

Other assets of HRK 1,108 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

i. Allowances

Cash on hand and current accounts with banks

| Bank | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 March 2019 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2019 | 1,651 | - | - | - | 1,651 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Increase of loss allowance | 567 | - | - | - | 567 |
| Release of loss allowance | (1,269) | - | - | - | (1,269) |
| Net foreign exchange gains on loss allowances | - | - | - | - | - |
| Balance at 31 March 2019 | 949 | - | - | - | 949 |

| Bank | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 December 2018 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2018 | 41 | - | - | - | 41 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Increase of loss allowance | 2,200 | - | - | - | 2,200 |
| Release of loss allowance | (592) | - | - | - | (592) |
| Net foreign exchange gains on loss allowances | 2 | - | - | - | 2 |
| Balance at 31 December 2018 | 1,651 | - | - | - | 1,651 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

i. Allowances (continued)

Deposits with other banks

| Bank | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 March 2019 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2019 | 1,361 | - | - | - | 1,361 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Increase of loss allowance | 2,371 | - | - | - | 2,371 |
| Release of loss allowance | (2,573) | - | - | - | (2,573) |
| Net foreign exchange gains on loss allowances | 2 | - | - | - | 2 |
| Balance at 31 March 2019 | 1,161 | - | - | - | 1,161 |

| Bank | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 December 2018 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2018 | 152 | - | - | - | 152 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Increase of loss allowance | 1,465 | - | - | - | 1,465 |
| Release of loss allowance | (249) | - | - | - | (249) |
| Net foreign exchange losses on loss allowances | (7) | - | - | - | (7) |
| Balance at 31 December 2018 | 1,361 | - | - | - | 1,361 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

i. Allowances (continued)

Loans to financial institutions

| Bank | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 March 2019 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2019 | 78,126 | 20,941 | 18,087 | - | 117,154 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Increase of loss allowance | 13,600 | 278 | 7 | - | 13,885 |
| Release of loss allowance | (13,307) | (6,105) | (2,797) | - | (22,209) |
| Unwind – changes due to the lapse of time | - | - | 50 | - | 50 |
| Loss allowances transferred from/to loans to other customers | (2) | - | - | - | (2) |
| Net foreign exchange gains on loss allowances | 38 | 16 | 8 | - | 62 |
| Balance at 31 March 2019 | 78,455 | 15,130 | 15,355 | - | 108,940 |

| Bank | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 December 2018 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2018 | 76,581 | 33,937 | 20,502 | - | 131,020 |
| Transfer to Stage 1 | 89 | (89) | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | (727) | 727 | - | - |
| Increase of loss allowance | 39,481 | 3,594 | 2,485 | - | 45,560 |
| Release of loss allowance | (41,651) | (11,810) | (5,248) | - | (58,709) |
| Unwind – changes due to the lapse of time | - | - | 275 | - | 275 |
| Loss allowances transferred from/to loans to other customers | (4) | (24) | - | - | (28) |
| Net foreign exchange losses on loss allowances | (553) | (272) | (139) | - | (964) |
| Balance at 31 December 2018 | 73,943 | 24,609 | 18,602 | - | 117,154 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

i. Allowances (continued)

Loans to other customers

| Bank | | | | | |
|---|-----------------|-----------------|------------------|-----------------|------------------|
| 31 March 2019 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2019 | 351,878 | 494,557 | 2,469,639 | 64,222 | 3,380,296 |
| Transfer to Stage 1 | 1,130 | (667) | (463) | - | - |
| Transfer to Stage 2 | (34,574) | 35,695 | (1,121) | - | - |
| Transfer to Stage 3 | (166) | (29,260) | 29,426 | - | - |
| Increase of loss allowance | 58,108 | 57,508 | 166,411 | 10,820 | 292,847 |
| Release of loss allowance | (34,276) | (16,662) | (119,942) | (14,149) | (185,029) |
| Write-offs | - | - | (1,028) | - | (1,028) |
| Unwind – changes due to the lapse of time | 32 | 8 | 7,018 | 1,641 | 8,699 |
| Loss allowances transferred to/from loans to financial institutions | 2 | - | - | - | 2 |
| Acquisition of immovable property | - | - | (608) | - | (608) |
| Other | - | - | 10 | - | 10 |
| Net foreign exchange gain on loss allowances | 292 | 451 | 3,209 | 649 | 4,601 |
| Balance at 31 March 2019 | 342,426 | 541,630 | 2,552,551 | 63,183 | 3,499,790 |

| Bank | | | | | |
|---|------------------|------------------|------------------|-----------------|------------------|
| 31 December 2018 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2018 | 381,600 | 452,780 | 2,758,825 | - | 3,593,205 |
| Transfer to Stage 1 | 22,243 | (21,969) | (274) | - | - |
| Transfer to Stage 2 | (379,180) | 382,723 | (3,543) | - | - |
| Transfer to Stage 3 | (39,281) | (82,634) | 121,915 | - | - |
| Increase of loss allowance | 211,756 | 416,830 | 415,807 | 93,000 | 1,137,393 |
| Release of loss allowance | (445,286) | (104,673) | (714,670) | (83,925) | (1,348,554) |
| Write-offs | (2) | - | (42,028) | (1,228) | (43,258) |
| Unwind – changes due to the lapse of time | 337 | 213 | 51,357 | 5,182 | 57,089 |
| Loss allowances transferred to/from loans to financial institutions | 4 | 24 | - | - | 28 |
| Acquisition of immovable property | (5) | - | (984) | - | (989) |
| Interest transferred from the off-balance sheet records | - | - | 496 | - | 496 |
| Sale of receivables | - | - | - | - | - |
| Other | - | - | - | - | - |
| Net foreign exchange gain/(losses) on loss allowances | (5,082) | (2,196) | (8,466) | 630 | (15,114) |
| Balance at 31 December 2018 | (252,896) | 1,041,098 | 2,578,435 | 13,659 | 3,380,296 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

i. Allowances (continued)

Financial assets at fair value through other comprehensive income

Bank

31 March 2019

| | Stage 1 HRK '000 | Stage 2 HRK '000 | Stage 3 HRK '000 | POCI HRK '000 | Total HRK '000 |
|--|---------------------|---------------------|---------------------|------------------|-------------------|
| Balance at 1 January 2019 | 4,720 | - | 1,739 | - | 6,459 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Increase of loss allowance | 672 | - | 267 | - | 939 |
| Release of loss allowance | (2,242) | - | (250) | - | (2,492) |
| Net foreign exchange gain on loss allowances | 1 | - | 2 | - | 3 |
| Balance at 31 March 2019 | 3,151 | - | 1,758 | - | 4,909 |

Bank

31 December 2018

| | Stage 1 HRK '000 | Stage 2 HRK '000 | Stage 3 HRK '000 | POCI HRK '000 | Total HRK '000 |
|--|---------------------|---------------------|---------------------|------------------|-------------------|
| Balance at 1 January 2018 | 3,546 | 451 | - | - | 3,997 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | (1,739) | 1,739 | - | - |
| Increase of loss allowance | 4,032 | - | 1,293 | - | 5,325 |
| Release of loss allowance | (2,844) | - | - | - | (2,844) |
| Net foreign exchange losses on loss allowances | (14) | - | (5) | - | (19) |
| Balance at 31 December 2018 | 4,720 | (1,288) | 3,027 | - | 6,459 |

Other assets

Bank

31 March 2019

| | Stage 1 HRK '000 | Stage 2 HRK '000 | Stage 3 HRK '000 | POCI HRK '000 | Total HRK '000 |
|---|---------------------|---------------------|---------------------|------------------|-------------------|
| Balance at 1 January 2019 | 46 | - | 33,837 | - | 33,883 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | (7) | 7 | - | - |
| Increase of loss allowance | 22 | 2 | 94,093 | 3 | 94,120 |
| Release of loss allowance | (37) | (2) | (93,986) | (44) | (94,069) |
| Net foreign exchange gains on loss allowances | - | - | 2 | - | 2 |
| Balance at 31 March 2019 | 31 | (7) | 33,953 | (41) | 33,936 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

i. Allowances (continued)

| Bank | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 December 2018 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2018 | 4 | 4 | 13,079 | - | 13,087 |
| Transfer to Stage 1 | 8 | - | (8) | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | (9) | (9) | 18 | - | - |
| Increase of loss allowance | 196 | 2 | 26,958 | 1 | 27,157 |
| Release of loss allowance | (174) | (5) | (6,163) | (1) | (6,343) |
| Write-offs | - | - | (10) | - | (10) |
| Acquisition of immovable property | - | - | (14) | - | (14) |
| Net foreign exchange gains on loss allowances | - | - | 6 | - | 6 |
| Balance at 31 December 2018 | 25 | (8) | 33,866 | - | 33,883 |

Guarantees and commitments

| Bank | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 March 2019 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2019 | 9,096 | 65,168 | 175,996 | 11,023 | 261,283 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - | - |
| Increase of loss allowance | 10,958 | 4,080 | 112,800 | 104 | 127,942 |
| Release of loss allowance | (9,436) | (1,306) | (201,471) | (8,350) | (220,563) |
| Net foreign exchange gains on loss allowances | 6 | - | 596 | 12 | 614 |
| Balance at 31 March 2019 | 10,624 | 67,942 | 87,921 | 2,789 | 169,276 |

| Bank | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| 31 December 2018 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance at 1 January 2018 | 20,203 | 749 | 28,395 | - | 49,347 |
| Transfer to Stage 1 | - | - | - | - | - |
| Transfer to Stage 2 | (65,094) | 65,094 | - | - | - |
| Transfer to Stage 3 | - | (1) | 1 | - | - |
| Increase of loss allowance | 69,535 | 83,274 | 170,322 | 20,173 | 343,304 |
| Release of loss allowance | (79,902) | (19,787) | (24,364) | (9,140) | (133,193) |
| Net foreign exchange gains/(losses) on loss allowances | (193) | 382 | 1,645 | (9) | 1,825 |
| Balance at 31 December 2018 | (55,451) | 129,711 | 175,999 | 11,024 | 261,283 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

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

Credit risk analysis, net exposure, 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 risk category, is as follows (continued):

| Bank | | | | | | | | | | | | | |
|---|-------------------|--|--|--|--|-----------------------------------|---|---|---|---|--|--|--|
| 31 December 2018 | | Net exposure of portfolio - risk Stage 1 HRK '000 | Net exposure of portfolio - risk Stage 2 HRK '000 | Net exposure of portfolio - risk Stage 3 HRK '000 | Net exposure of portfolio of risk POCI HRK '000 | Not subject to IFRS 9 HRK '000 | Net exposure of total portfolio HRK '000 | Net exposure of portfolio after the effect of mitigation through collateral received Stage 1 HRK '000 | Net exposure of portfolio after the effect of mitigation through collateral received Stage 2 HRK '000 | Net exposure of portfolio after the effect of mitigation through collateral received Stage 3 HRK '000 | Net exposure of portfolio after the effect of mitigation through collateral received POCI HRK '000 | Not subject to IFRS 9 after the effect of mitigation through collateral received HRK '000 | Net exposure of total portfolio after the effect of mitigation through collateral received HRK '000 |
| Assets | | | | | | | | | | | | | |
| Cash on hand and current accounts with banks | 941,069 | - | - | - | - | - | 941,069 | - | - | - | - | - | - |
| Deposits with other banks | 261,925 | - | - | - | - | - | 261,925 | - | - | - | - | - | - |
| Loans to financial institutions | 10,064,840 | 137,737 | 32,411 | - | - | - | 10,234,988 | - | - | - | - | - | - |
| Loans to other customers | 9,408,775 | 1,141,971 | 1,728,419 | 231,521 | - | - | 12,510,686 | 2,930,911 | 127,418 | 278,948 | 1,372 | - | 3,338,649 |
| Financial assets at fair value through profit or loss | - | - | - | - | 2,045 | 2,045 | - | - | - | - | - | 2,045 | 2,045 |
| Financial assets at fair value through other comprehensive income | 2,765,595 | - | 768 | - | - | - | 2,766,363 | 2,765,595 | - | 768 | - | - | 2,766,363 |
| Other assets | 2,775 | 12 | 1,395 | - | - | - | 4,182 | 1,809 | 1 | 1,281 | - | - | 3,091 |
| Total | 23,444,979 | 1,279,720 | 1,762,993 | 231,521 | 2,045 | 26,721,258 | 5,698,315 | 127,419 | 280,997 | 1,372 | 2,045 | 6,110,148 | |
| Guarantees and commitments | | | | | | | | | | | | | |
| Guarantees issued in HRK | 13,236 | - | 20,340 | - | - | - | 33,576 | 12,371 | - | - | - | - | 12,371 |
| Issued guarantees in foreign currency | 31,756 | - | 1,790,640 | - | - | - | 1,822,396 | 1,469 | - | 293,997 | - | - | 295,466 |
| Undrawn loans | 2,654,591 | 604,066 | 22,193 | 10,182 | - | - | 3,291,032 | 318,481 | 110,058 | 21,945 | - | - | 450,484 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | - | 93 | 93 | - | - | - | - | 93 |
| Total | 2,699,676 | 604,066 | 1,833,173 | 10,182 | - | 5,147,097 | 332,414 | 110,058 | 315,942 | - | - | 758,414 | |
| Total credit risk exposure | 26,144,655 | 1,883,786 | 3,596,166 | 241,703 | 2,045 | 31,868,355 | 6,030,729 | 237,477 | 596,939 | 1,372 | 2,045 | 6,868,562 | |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.3. Credit risk (continued)

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

In the total net highest exposure of the Group and the Bank after the effect of mitigation through collateral received, the amount of loans to other customers of HRK 2,520,298 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 1,571,622 thousand, local and regional authorities of HRK 647,039 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 228,404 thousand. An additional amount of HRK 73,233 thousand relates to receivables from majority state-owned companies (controlling influence).

The amount of financial assets at fair value through other comprehensive income and debt instruments at amortised cost is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 2,803,585 thousand for the Group and HRK 2,765,595 thousand for the Bank.

Other assets of HRK 1,174 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.4. Liquidity risk

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 31 March 2019 and 31 December 2018 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 31 March 2019 | Up to 1 month HRK '000 | 1 to 3 months HRK '000 | 3 months to 1 year HRK '000 | 1 to 3 years HRK '000 | Over 3 years HRK '000 | Total HRK '000 |
|---|------------------------------|------------------------------|-----------------------------------|-----------------------------|-----------------------------|-------------------|
| Assets | | | | | | |
| Cash on hand and current accounts with | 555,443 | - | - | - | - | 555,443 |
| Deposits with other banks | 246,053 | - | - | - | 631 | 246,684 |
| Loans to financial institutions* | 772,605 | 515,742 | 1,185,442 | 2,677,539 | 5,134,579 | 10,285,907 |
| Loans to other customers | 2,169,389 | 199,027 | 701,842 | 3,230,589 | 6,926,892 | 13,227,739 |
| Financial assets at fair value through profit or loss | 335,320 | - | - | - | 2,284 | 337,604 |
| Financial assets at fair value through other comprehensive income | 1,935,665 | 8,790 | - | - | - | 1,944,455 |
| Debt instruments at amortised cost | - | 9 | 9 | - | 1,347 | 1,365 |
| Property, plant and equipment and intangible assets | - | - | - | - | 49,685 | 49,685 |
| Foreclosed assets | - | 8,207 | 1,950 | 12,175 | 3,456 | 25,788 |
| Other assets | 7,311 | 15,491 | 3,279 | 240 | 2,949 | 29,270 |
| Total assets | 6,021,786 | 747,266 | 1,892,522 | 5,920,543 | 12,121,823 | 26,703,940 |
| Liabilities | | | | | | |
| Deposits from customers | 125,271 | 13,000 | 169,191 | 792 | 18,861 | 327,115 |
| Borrowings | 381,791 | 537,708** | 1,383,708 | 3,980,544 | 8,237,483 | 14,521,234 |
| Debt securities issued | - | 59,868 | - | 1,109,285 | - | 1,169,153 |
| Provisions for guarantees, commitments and other liabilities | 97,295 | 7,451 | 23,910 | 46,702 | 53,939 | 229,297 |
| Other liabilities | 149,125 | 13,859 | 40,890 | 79,622 | 79,932 | 363,428 |
| Total liabilities | 753,482 | 631,886 | 1,617,699 | 5,216,945 | 8,390,215 | 16,610,227 |
| Liquidity gap | 5,268,304 | 115,380 | 274,823 | 703,598 | 3,731,608 | 10,093,713 |
| Guarantees and commitments | | | | | | |
| Guarantees issued in HRK | 80,400 | - | - | - | - | 80,400 |
| Issued guarantees in foreign currency | 1,193,888 | - | - | - | - | 1,193,888 |
| Undrawn loans | 3,978,557 | - | - | - | - | 3,978,557 |
| EIF – subscribed, not called up capital | 47,520 | - | - | - | - | 47,520 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 |
| Total guarantees and commitments | 5,300,458 | - | - | - | - | 5,300,458 |

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

* Receivables of HRK 675,210 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 222,752 thousand was placed in the 1 to 3 months maturity category.

** Accrued interest on loans not yet due is allocated to the category from 1 to 3 months.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.4. Liquidity risk (continued)

| Group 31 December 2018 | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 3 years | Over 3 years | Total |
|---|------------------|------------------|-----------------------|------------------|-------------------|-------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | | | |
| Cash on hand and current accounts with | 944,417 | - | - | - | - | 944,417 |
| Deposits with other banks | 261,925 | - | - | - | - | 261,925 |
| Loans to financial institutions* | 389,640 | 693,932 | 1,231,553 | 2,718,573 | 5,201,290 | 10,234,988 |
| Loans to other customers | 2,096,151 | 141,949 | 792,913 | 2,769,366 | 6,710,307 | 12,510,686 |
| Financial assets at fair value through profit or loss | 334,221 | - | - | - | 2,045 | 336,266 |
| Financial assets at fair value through other comprehensive income | 2,818,280 | 11,167 | 23 | - | - | 2,829,470 |
| Debt instruments at amortised cost | - | 9 | 4 | - | 1,350 | 1,363 |
| Property, plant and equipment and intangible assets | - | - | - | - | 50,832 | 50,832 |
| Foreclosed assets | - | - | 9,690 | 2,666 | 12,974 | 25,330 |
| Other assets | 6,050 | 8,294 | 7,607 | 1,753 | - | 23,704 |
| Total assets | 6,850,684 | 855,351 | 2,041,790 | 5,492,358 | 11,978,798 | 27,218,981 |
| Liabilities | | | | | | |
| Deposits from customers | 229,704 | 6,579 | 177,736 | 757 | 14,320 | 429,096 |
| Borrowings | 313,492 | 461,196** | 1,454,492 | 3,966,550 | 8,682,257 | 14,877,987 |
| Debt securities issued | - | 43,347 | - | 1,107,210 | - | 1,150,557 |
| Provisions for guarantees, commitments and other liabilities | 125,437 | 10,305 | 35,597 | 71,166 | 78,986 | 321,491 |
| Other liabilities | 143,475 | 14,261 | 44,789 | 88,740 | 87,478 | 378,743 |
| Total liabilities | 812,108 | 535,688 | 1,712,614 | 5,234,423 | 8,863,041 | 17,157,874 |
| Liquidity gap | 6,038,576 | 319,663 | 329,176 | 257,935 | 3,115,757 | 10,061,107 |
| Guarantees and commitments | | | | | | |
| Guarantees issued in HRK | 33,576 | - | - | - | - | 33,576 |
| Issued guarantees in foreign currency | 1,822,396 | - | - | - | - | 1,822,396 |
| Undrawn loans | 3,291,032 | - | - | - | - | 3,291,032 |
| EIF – subscribed, not called up capital | 47,472 | - | - | - | - | 47,472 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 |
| Total guarantees and commitments | 5,194,569 | - | - | - | - | 5,194,569 |

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

* Receivables of HRK 691,269 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 222,527 thousand was placed in the 3 months up to 1 year maturity category.

** Accrued interest on loans not yet due is allocated to the category from 1 to 3 months.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.4. Liquidity risk (continued)

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 31 March 2019 and 31 December 2018 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 31 March 2019 | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 3 years | Over 3 years | Total |
|--|------------------|------------------|-----------------------|------------------|-------------------|-------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | | | |
| Cash on hand and current accounts with banks | 551,366 | - | - | - | - | 551,366 |
| Deposits with other banks | 246,053 | - | - | - | 631 | 246,684 |
| Loans to financial institutions* | 772,605 | 515,742 | 1,185,442 | 2,677,539 | 5,134,579 | 10,285,907 |
| Loans to other customers | 2,169,389 | 199,027 | 701,842 | 3,230,589 | 6,926,892 | 13,227,739 |
| Financial assets at fair value through profit or loss | 329,735 | - | - | - | 2,284 | 332,019 |
| Financial assets at fair value through | 1,897,911 | 8,696 | - | - | - | 1,906,607 |
| Investments in subsidiaries | - | - | - | - | 36,124 | 36,124 |
| Property, plant and equipment and intangible assets | - | - | - | - | 49,515 | 49,515 |
| Foreclosed assets | - | 8,207 | 1,950 | 12,175 | 3,456 | 25,788 |
| Other assets | 6,081 | 8,441 | 3,234 | 240 | 2,832 | 20,828 |
| Total assets | 5,973,140 | 740,113 | 1,892,468 | 5,920,543 | 12,156,313 | 26,682,577 |
| Liabilities | | | | | | |
| Deposits from customers | 125,271 | 13,000 | 169,191 | 792 | 18,861 | 327,115 |
| Borrowings | 381,791 | 537,708** | 1,383,708 | 3,980,544 | 8,237,483 | 14,521,234 |
| Debt securities issued | - | 59,868 | - | 1,109,285 | - | 1,169,153 |
| Provisions for guarantees, commitments and other liabilities | 97,165 | 7,451 | 23,910 | 46,702 | 53,939 | 229,167 |
| Other liabilities | 148,525 | 11,389 | 36,548 | 71,388 | 82,451 | 350,301 |
| Total liabilities | 752,752 | 629,416 | 1,613,357 | 5,208,711 | 8,392,734 | 16,596,970 |
| Liquidity gap | 5,220,388 | 110,697 | 279,111 | 711,832 | 3,763,579 | 10,085,607 |
| Guarantees and commitments | | | | | | |
| Guarantees issued in HRK | 80,400 | - | - | - | - | 80,400 |
| Issued guarantees in foreign currency | 1,193,888 | - | - | - | - | 1,193,888 |
| Undrawn loans | 3,978,557 | - | - | - | - | 3,978,557 |
| EIF – subscribed, not called up capital | 47,520 | - | - | - | - | 47,520 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 |
| Total guarantees and commitments | 5,300,458 | - | - | - | - | 5,300,458 |

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

* Receivables of HRK 675,210 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 222,752 thousand was placed in the 3 months up to 1 year maturity category.

** Accrued interest on loans not yet due is allocated to the category from 1 to 3 months.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.4. Liquidity risk (continued)

| Bank 31 December 2018 | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 3 years | Over 3 years | Total |
|--|------------------|------------------|-----------------------|------------------|-------------------|-------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | | | |
| Cash on hand and current accounts with banks | 941,071 | - | - | - | - | 941,071 |
| Deposits with other banks | 261,925 | - | - | - | - | 261,925 |
| Loans to financial institutions* | 389,640 | 693,932 | 1,231,553 | 2,718,573 | 5,201,290 | 10,234,988 |
| Loans to other customers | 2,096,151 | 141,949 | 792,913 | 2,769,366 | 6,710,307 | 12,510,686 |
| Financial assets at fair value through profit | 328,758 | - | - | - | 2,045 | 330,803 |
| Financial assets at fair value through other | 2,781,000 | 11,072 | - | - | - | 2,792,072 |
| Investments in subsidiaries | - | - | - | - | 36,124 | 36,124 |
| Property, plant and equipment and intangible assets | - | - | - | - | 50,764 | 50,764 |
| Foreclosed assets | - | - | 9,690 | 2,666 | 12,974 | 25,330 |
| Other assets | 4,856 | 970 | 7,585 | 1,753 | - | 15,164 |
| Total assets | 6,803,401 | 847,923 | 2,041,741 | 5,492,358 | 12,013,504 | 27,198,927 |
| Liabilities | | | | | | |
| Deposits from customers | 229,704 | 6,579 | 177,736 | 757 | 14,320 | 429,096 |
| Borrowings | 313,492 | 461,196** | 1,454,492 | 3,966,550 | 8,682,257 | 14,877,987 |
| Debt securities issued | - | 43,347 | - | 1,107,210 | - | 1,150,557 |
| Provisions for guarantees, commitments and other liabilities | 125,417 | 10,305 | 35,487 | 71,166 | 78,986 | 321,361 |
| Other liabilities | 142,805 | 11,734 | 40,406 | 81,033 | 89,936 | 365,914 |
| Total liabilities | 811,418 | 533,161 | 1,708,121 | 5,226,716 | 8,865,499 | 17,144,915 |
| Liquidity gap | 5,991,983 | 314,762 | 333,620 | 265,642 | 3,148,005 | 10,054,012 |
| Guarantees and commitments | | | | | | |
| Guarantees issued in HRK | 33,576 | - | - | - | - | 33,576 |
| Issued guarantees in foreign currency | 1,822,396 | - | - | - | - | 1,822,396 |
| Undrawn loans | 3,291,032 | - | - | - | - | 3,291,032 |
| EIF – subscribed, not called up capital | 47,472 | - | - | - | - | 47,472 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 |
| Total guarantees and commitments | 5,194,569 | - | - | - | - | 5,194,569 |

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

* Receivables of HRK 691,269 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 222,527 thousand was placed in the 3 months up to 1 year maturity category.

** Accrued interest on loans not yet due is allocated to the category from 1 to 3 months.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.4. Liquidity risk (continued)

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

| Group 31 March 2019 | Up to 1 month | 1 - 3 months | 3 - 12 months | 1 - 3 years | Over 3 years | Total |
|---|------------------|-----------------|------------------|------------------|------------------|-------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Financial liabilities | | | | | | |
| Deposits from customers | 125,271 | 13,000 | 169,191 | 792 | 18,861 | 327,115 |
| Borrowings | 409,932 | 515,272 | 1,546,602 | 4,376,254 | 9,016,812 | 15,864,872 |
| Debt securities issued | - | 66,826 | - | 1,176,110 | - | 1,242,936 |
| Provisions for guarantees, commitments and other liabilities | 97,295 | 7,451 | 23,910 | 46,702 | 53,939 | 229,297 |
| Other liabilities | 149,125 | 13,859 | 40,890 | 79,622 | 79,932 | 363,428 |
| Total | 781,623 | 616,408 | 1,780,593 | 5,679,480 | 9,169,544 | 18,027,648 |

Guarantees and commitments

| | | | | | | |
|---|------------------|----------|----------|----------|----------|------------------|
| Guarantees issued in HRK | 80,400 | - | - | - | - | 80,400 |
| Issued guarantees in foreign currency | 1,193,888 | - | - | - | - | 1,193,888 |
| Undrawn loans | 3,978,557 | - | - | - | - | 3,978,557 |
| EIF – subscribed, not called up capital | 47,520 | - | - | - | - | 47,520 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 |
| Total guarantees and commitments | 5,300,458 | - | - | - | - | 5,300,458 |

| Group 31 December 2018 | Up to 1 month | 1 - 3 months | 3 - 12 months | 1 - 3 years | Over 3 years | Total |
|---|------------------|-----------------|------------------|------------------|------------------|-------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Financial liabilities | | | | | | |
| Deposits from customers | 229,704 | 6,579 | 177,736 | 757 | 14,320 | 429,096 |
| Borrowings | 338,464 | 438,773 | 1,647,005 | 4,387,915 | 9,457,974 | 16,270,131 |
| Debt securities issued | - | - | 66,758 | 1,173,968 | - | 1,240,726 |
| Provisions for guarantees, commitments and other liabilities | 125,437 | 10,305 | 35,597 | 71,166 | 78,986 | 321,491 |
| Other liabilities | 143,475 | 14,261 | 44,789 | 88,740 | 87,478 | 378,743 |
| Total | 837,080 | 469,918 | 1,971,885 | 5,722,546 | 9,638,758 | 18,640,187 |

Guarantees and commitments

| | | | | | | |
|---|------------------|----------|----------|----------|----------|------------------|
| Guarantees issued in HRK | 33,576 | - | - | - | - | 33,576 |
| Issued guarantees in foreign currency | 1,822,396 | - | - | - | - | 1,822,396 |
| Undrawn loans | 3,291,032 | - | - | - | - | 3,291,032 |
| EIF – subscribed, not called up capital | 47,472 | - | - | - | - | 47,472 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 |
| Total guarantees and commitments | 5,194,569 | - | - | - | - | 5,194,569 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.4. Liquidity risk (continued)

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

| Bank 31 March 2019 | Up to 1 month | 1 - 3 months | 3 - 12 months | 1 - 3 years | Over 3 years | Total |
|---|------------------|-----------------|------------------|------------------|------------------|-------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Financial liabilities | | | | | | |
| Deposits from customers | 125,271 | 13,000 | 169,191 | 792 | 18,861 | 327,115 |
| Borrowings | 409,932 | 515,272 | 1,546,602 | 4,376,254 | 9,016,812 | 15,864,872 |
| Debt securities issued | - | 66,826 | - | 1,176,110 | - | 1,242,936 |
| Provisions for guarantees, commitments and other liabilities | 97,165 | 7,451 | 23,910 | 46,702 | 53,939 | 229,167 |
| Other liabilities | 148,525 | 11,389 | 36,548 | 71,388 | 82,451 | 350,301 |
| Total | 780,893 | 613,938 | 1,776,251 | 5,671,246 | 9,172,063 | 18,014,391 |

Guarantees and commitments

| | | | | | | |
|--|------------------|----------|----------|----------|----------|------------------|
| Guarantees issued in HRK | 80,400 | - | - | - | - | 80,400 |
| Issued guarantees in foreign currency | 1,193,888 | - | - | - | - | 1,193,888 |
| Undrawn loans | 3,978,557 | - | - | - | - | 3,978,557 |
| EIF – subscribed, not called up capital | 47,520 | - | - | - | - | 47,520 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 |
| Total guarantees and commitments | 5,300,458 | - | - | - | - | 5,300,458 |

| Bank 31 December 2018 | Up to 1 month | 1 - 3 months | 3 - 12 months | 1 - 3 years | Over 3 years | Total |
|---|------------------|-----------------|------------------|------------------|------------------|-------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Financial liabilities | | | | | | |
| Deposits from customers | 229,704 | 6,579 | 177,736 | 757 | 14,320 | 429,096 |
| Borrowings | 338,464 | 438,773 | 1,647,005 | 4,387,915 | 9,457,974 | 16,270,131 |
| Debt securities issued | - | - | 66,758 | 1,173,968 | - | 1,240,726 |
| Provisions for guarantees, commitments and other liabilities | 125,417 | 10,305 | 35,487 | 71,166 | 78,986 | 321,361 |
| Other liabilities | 142,805 | 11,734 | 40,406 | 81,033 | 89,936 | 365,914 |
| Total | 836,390 | 467,391 | 1,967,392 | 5,714,839 | 9,641,216 | 18,627,228 |

Guarantees and commitments

| | | | | | | |
|--|------------------|----------|----------|----------|----------|------------------|
| Guarantees issued in HRK | 33,576 | - | - | - | - | 33,576 |
| Issued guarantees in foreign currency | 1,822,396 | - | - | - | - | 1,822,396 |
| Undrawn loans | 3,291,032 | - | - | - | - | 3,291,032 |
| EIF – subscribed, not called up capital | 47,472 | - | - | - | - | 47,472 |
| Other irrevocable contingent liabilities | 93 | - | - | - | - | 93 |
| Total guarantees and commitments | 5,194,569 | - | - | - | - | 5,194,569 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management

24.5. Market risk

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

24.5.1. Interest rate risk

The following tables demonstrate the sensitivity of the Group to the interest rate risk as of 31 March 2019 and 31 December 2018 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter.

Assets and liabilities on which interest is not charged are placed into the non-interest bearing category. The tables below demonstrate the estimation of Group's interest rate risk exposure as of 31 March 2019 and 31 December 2018 which may not be indicative for the positions in other periods.

| Group | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 3 years | Over 3 years | Non- interest bearing | Total | Fixed interest rate |
|--|------------------|------------------|-----------------------|------------------|-------------------|-----------------------------|-------------------|---------------------------|
| 31 March 2019 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | | | | | |
| Cash on hand and current accounts with banks | 26,099 | - | - | - | - | 529,344 | 555,443 | 26,099 |
| Deposits with other banks | 246,048 | - | - | - | - | 636 | 246,684 | 246,048 |
| Loans to financial institutions | 751,447 | 759,048 | 1,144,453 | 2,592,209 | 5,016,498 | 22,252 | 10,285,907 | 9,979,833 |
| Loans to other customers | 2,341,332 | 414,313 | 666,104 | 2,951,016 | 6,751,726 | 103,248 | 13,227,739 | 12,484,770 |
| Financial assets at fair value through profit or loss | - | - | - | - | 2,284 | 335,320 | 337,604 | 2,284 |
| Financial assets at fair value through other comprehensive income | 1,914,503 | - | - | - | - | 29,952 | 1,944,455 | 1,914,503 |
| Debt instruments at amortised cost | - | - | - | - | 1,349 | 16 | 1,365 | 1,349 |
| Other assets | - | - | - | - | - | 29,270 | 29,270 | - |
| Total assets | 5,279,429 | 1,173,361 | 1,810,557 | 5,543,225 | 11,771,857 | 1,050,038 | 26,628,467 | 24,654,886 |
| Liabilities | | | | | | | | |
| Deposits from customers | 37,125 | - | - | - | - | 289,990 | 327,115 | 37,125 |
| Borrowings | 381,791 | 622,129 | 1,370,323 | 3,944,849 | 8,134,862 | 67,280 | 14,521,234 | 14,297,792 |
| Debt securities issued | - | - | - | 1,109,285 | - | 59,868 | 1,169,153 | 1,109,285 |
| Provisions for guarantees, commitments and other liabilities | - | - | - | - | - | 229,297 | 229,297 | - |
| Other liabilities | - | - | - | - | - | 363,428 | 363,428 | - |
| Total liabilities | 418,916 | 622,129 | 1,370,323 | 5,054,134 | 8,134,862 | 1,009,863 | 16,610,227 | 15,444,202 |
| Interest rate gap | 4,860,513 | 551,232 | 440,234 | 489,091 | 3,636,995 | 40,175 | 10,018,240 | 9,210,684 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.5. Market risk (continued)

24.5.1. Interest rate risk (continued)

| Group | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 3 years | Over 3 years | Non-interest bearing | Total | Fixed interest rate |
|---|------------------|------------------|--------------------|------------------|-------------------|----------------------|-------------------|---------------------|
| 31 December 2018 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | | | | | |
| Cash on hand and current accounts with banks | 24,290 | - | - | - | - | 920,127 | 944,417 | 24,290 |
| Deposits with other banks | 261,922 | - | - | - | - | 3 | 261,925 | 261,922 |
| Loans to financial institutions | 383,417 | 956,301 | 1,193,348 | 2,624,259 | 5,070,629 | 7,034 | 10,234,988 | 9,922,017 |
| Loans to other customers | 2,273,725 | 465,131 | 712,572 | 2,476,258 | 6,491,188 | 91,812 | 12,510,686 | 11,699,344 |
| Financial assets at fair value through profit or loss | - | - | - | - | 2,045 | 334,221 | 336,266 | 2,045 |
| Financial assets at fair value through other comprehensive income | 2,792,223 | - | - | - | - | 37,247 | 2,829,470 | 2,792,223 |
| Debt instruments at amortised cost | - | - | - | - | 1,350 | 13 | 1,363 | 1,350 |
| Other assets | - | - | - | - | - | 23,704 | 23,704 | - |
| Total assets | 5,735,577 | 1,421,432 | 1,905,920 | 5,100,517 | 11,565,212 | 1,414,161 | 27,142,819 | 24,703,191 |
| Liabilities | | | | | | | | |
| Deposits from customers | 148,351 | - | - | - | - | 280,745 | 429,096 | - |
| Borrowings | 313,492 | 559,016 | 1,441,392 | 3,931,617 | 8,577,456 | 55,014 | 14,877,987 | 14,665,772 |
| Debt securities issued | - | - | - | 1,107,210 | - | 43,347 | 1,150,557 | 1,107,210 |
| Provisions for guarantees, commitments and other liabilities | - | - | - | - | - | 321,491 | 321,491 | - |
| Other liabilities | - | - | - | - | - | 378,743 | 378,743 | - |
| Total liabilities | 461,843 | 559,016 | 1,441,392 | 5,038,827 | 8,577,456 | 1,079,340 | 17,157,874 | 15,772,982 |
| Interest rate gap | 5,273,734 | 862,416 | 464,528 | 61,690 | 2,987,756 | 334,821 | 9,984,945 | 8,930,209 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.5. Market risk (continued)

24.5.1. Interest rate risk (continued)

The following tables demonstrate the sensitivity of HBOR to the interest rate risk as of 31 March 2019 and 31 December 2018 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter. Assets and liabilities on which interest is not charged are placed into the non-interest bearing category.

The tables below demonstrate the estimation of HBOR's interest rate risk exposure as of 31 March 2019 and 31 December 2018 which may not be indicative for the positions in other periods.

| Bank | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 3 years | Over 3 years | Non- interest bearing | Total | Fixed interest rate |
|---|------------------|------------------|-----------------------|------------------|-------------------|-----------------------------|-------------------|---------------------------|
| 31 March 2019 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | | | | | |
| Cash on hand and current | | | | | | | | |
| accounts with banks | 22,004 | - | - | - | - | 529,362 | 551,366 | 22,004 |
| Deposits with other banks | 246,048 | - | - | - | - | 636 | 246,684 | 246,048 |
| Loans to financial institutions | 751,447 | 759,048 | 1,144,453 | 2,592,209 | 5,016,498 | 22,252 | 10,285,907 | 9,979,833 |
| Loans to other customers | 2,341,332 | 414,313 | 666,104 | 2,951,016 | 6,751,726 | 103,248 | 13,227,739 | 12,484,770 |
| Financial assets at fair value through profit or loss | - | - | - | - | 2,284 | 329,735 | 332,019 | 2,284 |
| Financial assets at fair value through other comprehensive income | 1,872,176 | - | - | - | - | 34,431 | 1,906,607 | 1,872,176 |
| Other assets | - | - | - | - | - | 20,828 | 20,828 | - |
| Total assets | 5,233,007 | 1,173,361 | 1,810,557 | 5,543,225 | 11,770,508 | 1,040,492 | 26,571,150 | 24,607,115 |
| Liabilities | | | | | | | | |
| Deposits from customers | 37,125 | - | - | - | - | 289,990 | 327,115 | 37,125 |
| Borrowings | 381,791 | 622,129 | 1,370,323 | 3,944,849 | 8,134,862 | 67,280 | 14,521,234 | 14,297,792 |
| Debt securities issued | - | - | - | 1,109,285 | - | 59,868 | 1,169,153 | 1,109,285 |
| Provisions for guarantees, commitments and other | - | - | - | - | - | 229,167 | 229,167 | - |
| Other liabilities | - | - | - | - | - | 350,301 | 350,301 | - |
| Total liabilities | 418,916 | 622,129 | 1,370,323 | 5,054,134 | 8,134,862 | 996,606 | 16,596,970 | 15,444,202 |
| Interest rate gap | 4,814,091 | 551,232 | 440,234 | 489,091 | 3,635,646 | 43,886 | 9,974,180 | 9,162,913 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.5. Market risk (continued)

24.5.1. Interest rate risk (continued)

| Bank | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 3 years | Over 3 years | Non- interest bearing | Total | Fixed interest rate |
|---|------------------|------------------|-----------------------|------------------|-------------------|-----------------------------|-------------------|---------------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| 31 December 2018 | | | | | | | | |
| Assets | | | | | | | | |
| Cash on hand and current accounts with banks | 20,944 | - | - | - | - | 920,127 | 941,071 | 20,944 |
| Deposits with other banks | 261,922 | - | - | - | - | 3 | 261,925 | 261,922 |
| Loans to financial institutions | 383,417 | 956,301 | 1,193,348 | 2,624,259 | 5,070,629 | 7,034 | 10,234,988 | 9,922,017 |
| Loans to other customers | 2,273,725 | 465,131 | 712,572 | 2,476,258 | 6,491,188 | 91,812 | 12,510,686 | 11,699,344 |
| Financial assets at fair value through profit or loss | - | - | - | - | 2,045 | 328,758 | 330,803 | 2,045 |
| Financial assets at fair value through other comprehensive income | 2,755,291 | - | - | - | - | 36,781 | 2,792,072 | 2,755,291 |
| Other assets | - | - | - | - | - | 15,164 | 15,164 | - |
| Total assets | 5,695,299 | 1,421,432 | 1,905,920 | 5,100,517 | 11,563,862 | 1,399,679 | 27,086,709 | 24,661,563 |
| Liabilities | | | | | | | | |
| Deposits from customers | 148,351 | - | - | - | - | 280,745 | 429,096 | - |
| Borrowings | 313,492 | 559,016 | 1,441,392 | 3,931,617 | 8,577,456 | 55,014 | 14,877,987 | 14,665,772 |
| Debt securities issued | - | - | - | 1,107,210 | - | 43,347 | 1,150,557 | 1,107,210 |
| Provisions for guarantees, commitments and other | - | - | - | - | - | 321,361 | 321,361 | - |
| Other liabilities | - | - | - | - | - | 365,914 | 365,914 | - |
| Total liabilities | 461,843 | 559,016 | 1,441,392 | 5,038,827 | 8,577,456 | 1,066,381 | 17,144,915 | 15,772,982 |
| Interest rate gap | 5,233,456 | 862,416 | 464,528 | 61,690 | 2,986,406 | 333,298 | 9,941,794 | 8,888,581 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.5. Market risk (continued)

24.5.1. Interest rate risk (continued)

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

| | Group | | Bank | |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 31 March | 31 December | 31 March | 31 December |
| | 2019 | 2018 | 2019 | 2018 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | |
| Fixed interest rate assets | 24,654,886 | 24,703,191 | 24,607,115 | 24,661,563 |
| Variable interest rate assets | 923,543 | 1,025,467 | 923,543 | 1,025,467 |
| Non-interest bearing | 1,050,038 | 1,414,161 | 1,040,492 | 1,399,679 |
| Total assets | 26,628,467 | 27,142,819 | 26,571,150 | 27,086,709 |
| Liabilities | | | | |
| Fixed interest rate liabilities | 15,444,202 | 15,772,982 | 15,444,202 | 15,772,982 |
| Variable interest rate liabilities | 156,162 | 305,552 | 156,162 | 305,552 |
| Non-interest bearing | 1,009,863 | 1,079,340 | 996,606 | 1,066,381 |
| Total liabilities | 16,610,227 | 17,157,874 | 16,596,970 | 17,144,915 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.5. Market risk (continued)

24.5.1. Interest rate risk (continued)

Sensitivity analysis

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

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

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

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

| Currency | Increase in b.p. Mar 31, 2019 | Effect on profit Mar 31, 2019 | Increase in b.p. Dec 31, 2018 | Effect on profit Dec 31, 2018 |
|----------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | | HRK '000 | | HRK '000 |
| EUR | +1 | 41 | +1 | 40 |
| USD | +15 | 498 | +17 | 599 |
| Currency | Decrease in b.p. Mar 31, 2019 | Effect on profit Mar 31, 2019 | Decrease in b.p. Dec 31, 2018 | Effect on profit Dec 31, 2018 |
| | | HRK '000 | | HRK '000 |
| EUR | -1 | (41) | -1 | (40) |
| USD | -15 | (498) | -17 | (599) |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.5. Market risk (continued)

24.5.2. Currency risk

Total assets and total liabilities as of 31 March 2019 and 31 December 2018 in HRK and foreign currencies can be shown as follows:

| Group | USD | EUR | Other foreign currencies | Total foreign currencies | HRK | Total |
|---|-----------------|-------------------|--------------------------|--------------------------|--------------------|-------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| 31 March 2019 | | | | | | |
| Assets | | | | | | |
| Cash on hand and current accounts with banks | 1,100 | 19,927 | 1,436 | 22,463 | 532,980 | 555,443 |
| Deposits with other banks | 24,451 | 222,233 | - | 246,684 | - | 246,684 |
| Loans to financial institutions | - | 5,703,765 | - | 5,703,765 | 4,582,142 | 10,285,907 |
| Loans to other customers | 607,962 | 8,051,782 | - | 8,659,744 | 4,567,995 | 13,227,739 |
| Financial assets at fair value through profit or loss | - | 53,377 | - | 53,377 | 284,227 | 337,604 |
| Financial assets at fair value through other comprehensive income | - | 392,338 | - | 392,338 | 1,552,117 | 1,944,455 |
| Debt instruments at amortised cost | - | 1,365 | - | 1,365 | - | 1,365 |
| Property, plant and equipment and intangible assets | - | - | - | - | 49,685 | 49,685 |
| Foreclosed assets | - | - | - | - | 25,788 | 25,788 |
| Other assets | - | 7,105 | - | 7,105 | 22,165 | 29,270 |
| Total assets | 633,513 | 14,451,892 | 1,436 | 15,086,841 | 11,617,099* | 26,703,940 |
| Liabilities | | | | | | |
| Deposits from customers | 20,953 | 49,626 | 83 | 70,662 | 256,453 | 327,115 |
| Borrowings | 617,709 | 13,903,525 | - | 14,521,234 | - | 14,521,234 |
| Debt securities issued | - | 1,169,153 | - | 1,169,153 | - | 1,169,153 |
| Provisions for guarantees, commitments and other liabilities | 9,645 | 75,254 | 282 | 85,181 | 144,116 | 229,297 |
| Other liabilities | 971 | 11,214 | 27 | 12,212 | 351,216 | 363,428 |
| Total liabilities | 649,278 | 15,208,772 | 392 | 15,858,442 | 751,785 | 16,610,227 |
| Currency gap | (15,765) | (756,880) | 1,044 | (771,601) | 10,865,314 | 10,093,713 |

*Amounts linked to a one-way currency clause represent HRK 95,512 thousand.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.5. Market risk (continued)

24.5.2. Currency risk (continued)

| Group | USD | EUR | Other foreign currencies | Total foreign currencies | HRK | Total |
|---|-----------------|--------------------|--------------------------|--------------------------|--------------------|-------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| 31 December 2018 | | | | | | |
| Assets | | | | | | |
| Cash on hand and current accounts with banks | 4,824 | 15,188 | 1,391 | 21,403 | 923,014 | 944,417 |
| Deposits with other banks | 40,545 | 221,380 | - | 261,925 | - | 261,925 |
| Loans to financial institutions | - | 5,784,740 | - | 5,784,740 | 4,450,248 | 10,234,988 |
| Loans to other customers | 635,501 | 7,866,575 | - | 8,502,076 | 4,008,610 | 12,510,686 |
| Financial assets at fair value through profit or loss | - | 50,119 | - | 50,119 | 286,147 | 336,266 |
| Financial assets at fair value through other comprehensive income | - | 619,962 | - | 619,962 | 2,209,508 | 2,829,470 |
| Debt instruments at amortised cost | - | 1,363 | - | 1,363 | - | 1,363 |
| Property, plant and equipment and intangible assets | - | - | - | - | 50,832 | 50,832 |
| Foreclosed assets | - | - | - | - | 25,330 | 25,330 |
| Other assets | - | 7,395 | - | 7,395 | 16,309 | 23,704 |
| Total assets | 680,870 | 14,566,722 | 1,391 | 15,248,983 | 11,969,998* | 27,218,981 |
| Liabilities | | | | | | |
| Deposits from customers | 20,526 | 161,858 | 80 | 182,464 | 246,632 | 429,096 |
| Borrowings | 688,500 | 14,189,487 | - | 14,877,987 | - | 14,877,987 |
| Debt securities issued | - | 1,150,557 | - | 1,150,557 | - | 1,150,557 |
| Provisions for guarantees, commitments and other liabilities | 55,291 | 116,896 | 268 | 172,455 | 149,036 | 321,491 |
| Other liabilities | 3,284 | 9,392 | 34 | 12,710 | 366,033 | 378,743 |
| Total liabilities | 767,601 | 15,628,190 | 382 | 16,396,173 | 761,701 | 17,157,874 |
| Currency gap | (86,731) | (1,061,468) | 1,009 | (1,147,190) | 11,208,297 | 10,061,107 |

*Amounts linked to a one-way currency clause represent HRK 90,776 thousand.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.5. Market risk (continued)

24.5.2. Currency risk (continued)

Total assets and total liabilities as of 31 March 2019 and 31 December 2018 in HRK and foreign currencies can be shown as follows:

| Bank | USD | EUR | Other foreign currencies | Total foreign currencies | HRK | Total |
|---|-----------------|-------------------|--------------------------|--------------------------|--------------------|-------------------|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| 31 March 2019 | | | | | | |
| Assets | | | | | | |
| Cash on hand and current accounts with banks | 1,100 | 19,927 | 1,436 | 22,463 | 528,903 | 551,366 |
| Deposits with other banks | 24,451 | 222,233 | - | 246,684 | - | 246,684 |
| Loans to financial institutions | - | 5,703,765 | - | 5,703,765 | 4,582,142 | 10,285,907 |
| Loans to other customers | 607,962 | 8,051,782 | - | 8,659,744 | 4,567,995 | 13,227,739 |
| Financial assets at fair value through profit or loss | - | 47,792 | - | 47,792 | 284,227 | 332,019 |
| Financial assets at fair value through other comprehensive income | - | 385,686 | - | 385,686 | 1,520,921 | 1,906,607 |
| Investments in subsidiaries | - | - | - | - | 36,124 | 36,124 |
| Property, plant and equipment and intangible assets | - | - | - | - | 49,515 | 49,515 |
| Foreclosed assets | - | - | - | - | 25,788 | 25,788 |
| Other assets | - | 110 | - | 110 | 20,718 | 20,828 |
| Total assets | 633,513 | 14,431,295 | 1,436 | 15,066,244 | 11,616,333* | 26,682,577 |
| Liabilities | | | | | | |
| Deposits from customers | 20,953 | 49,626 | 83 | 70,662 | 256,453 | 327,115 |
| Borrowings | 617,709 | 13,903,525 | - | 14,521,234 | - | 14,521,234 |
| Debt securities issued | - | 1,169,153 | - | 1,169,153 | - | 1,169,153 |
| Provisions for guarantees, commitments and other liabilities | 9,645 | 75,254 | 282 | 85,181 | 143,986 | 229,167 |
| Other liabilities | 784 | 3,117 | - | 3,901 | 346,400 | 350,301 |
| Total liabilities | 649,091 | 15,200,675 | 365 | 15,850,131 | 746,839 | 16,596,970 |
| Currency gap | (15,578) | (769,380) | 1,071 | (783,887) | 10,869,494 | 10,085,607 |

*Amounts linked to a one-way currency clause represent HRK 95,512 thousand.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.5. Market risk (continued)

24.5.2. Currency risk (continued)

| Bank | USD | EUR | Other foreign currencies | Total foreign currencies | HRK | Total |
|---|-----------------|--------------------|--------------------------|--------------------------|--------------------|-------------------|
| 31 December 2018 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Assets | | | | | | |
| Cash on hand and current accounts with banks | 4,824 | 15,188 | 1,391 | 21,403 | 919,668 | 941,071 |
| Deposits with other banks | 40,545 | 221,380 | - | 261,925 | - | 261,925 |
| Loans to financial institutions | - | 5,784,740 | - | 5,784,740 | 4,450,248 | 10,234,988 |
| Loans to other customers | 635,501 | 7,866,575 | - | 8,502,076 | 4,008,610 | 12,510,686 |
| Financial assets at fair value through profit or loss | - | 46,807 | - | 46,807 | 283,996 | 330,803 |
| Financial assets at fair value through other comprehensive income | - | 611,072 | - | 611,072 | 2,181,000 | 2,792,072 |
| Investments in subsidiaries | - | - | - | - | 36,124 | 36,124 |
| Property, plant and equipment and intangible assets | - | - | - | - | 50,764 | 50,764 |
| Foreclosed assets | - | - | - | - | 25,330 | 25,330 |
| Other assets | - | 110 | - | 110 | 15,054 | 15,164 |
| Total assets | 680,870 | 14,545,872 | 1,391 | 15,228,133 | 11,970,794* | 27,198,927 |
| Liabilities | | | | | | |
| Deposits from customers | 20,526 | 161,858 | 80 | 182,464 | 246,632 | 429,096 |
| Borrowings | 688,500 | 14,189,487 | - | 14,877,987 | - | 14,877,987 |
| Debt securities issued | - | 1,150,557 | - | 1,150,557 | - | 1,150,557 |
| Provisions for guarantees, commitments and other liabilities | 55,291 | 116,896 | 268 | 172,455 | 148,906 | 321,361 |
| Other liabilities | 3,088 | 1,317 | - | 4,405 | 361,509 | 365,914 |
| Total liabilities | 767,405 | 15,620,115 | 348 | 16,387,868 | 757,047 | 17,144,915 |
| Currency gap | (86,535) | (1,074,243) | 1,043 | (1,159,735) | 11,213,747 | 10,054,012 |

* Amounts linked to a one-way currency clause represent HRK 90,776 thousand,

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

24. Risk management (continued)

24.5. Market risk (continued)

24.5.2. Currency risk (continued)

Sensitivity analysis

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

An assumption of reasonably possible fluctuations in EUR and USD exchange rates against HRK was used in the foreign currency risk sensitivity analysis, with the other variables remaining stable, in order to assess the hypothetical effect on HBOR's profit as of 31 March 2019.

Volatility of the exchange rates determined using the standard deviation method on the changes of the foreign exchange rates of EUR/HRK and USD/HRK equalled 1.66% for EUR/HRK, while the USD/HRK volatility rate was 6.71% in the previous 12 months.

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

| | Change in currency rate Mar 31, 2019 % | Effect on profit Mar 31, 2019 HRK' 000 | Change in currency rate Dec 31, 2018 % | Effect on profit Dec 31, 2018 HRK' 000 |
|-----|---|---|---|---|
| EUR | +1.66 | 7,435 | +1.97 | (14,207) |
| EUR | -1.66 | 8,266 | -1.97 | 15,217 |
| USD | +6.71 | (121) | +7.28 | (1,402) |
| USD | -6.71 | 121 | -7.28 | 1,402 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

25. Fair value of financial assets and financial liabilities

The accounting policy on fair value measurements is discussed in Note 4.2.

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

The tables below present a breakdown of financial assets at fair value based on IFRS 9 classification on 31 March 2019 and 31 December 2018.

| Group | 31 March 2019 | | |
|--|---------------------|---------------------|---------------------|
| | Level 1 HRK '000 | Level 2 HRK '000 | Level 3 HRK '000 |
| Financial assets at fair value through profit or loss: | | | |
| <i>Loans at FVPL:</i> | | | |
| Mezzanine loans | - | - | 2,284 |
| <i>Investments in investment funds:</i> | | | |
| Investments in investment funds at fair value through profit or loss | 335,159 | - | - |
| Equity instruments: | | | |
| <i>Listed equity instruments:</i> | | | |
| Investments in corporate shares | - | - | - |
| <i>Unlisted equity instruments:</i> | | | |
| Investments in corporate shares | - | - | - |
| Investment in financial institutions shares | - | 161 | - |
| Total financial assets at fair value through profit or loss | 335,159 | 161 | 2,284 |
| Financial assets at fair value through other comprehensive income: | | | |
| Debt instruments: | | | |
| <i>Listed debt instruments:</i> | | | |
| Bonds of the Republic of Croatia | 1,208,756 | - | - |
| Corporate bonds | 770 | - | - |
| Treasury bills of the Ministry of Finance | 699,629 | - | - |
| Accrued interest | 8,766 | - | - |
| <i>Unlisted debt instruments:</i> | | | |
| Corporate bonds | - | - | 549 |
| Accrued interest | - | - | 250 |
| Total debt instruments | 1,917,921 | - | 799 |
| <i>Unlisted equity instruments:</i> | | | |
| Investment in shares of foreign legal entities -SWIFT | - | 38 | - |
| Shares of foreign financial institutions – EIF | - | 25,697 | - |
| Total equity instruments | - | 25,735 | - |
| Total financial assets at fair value through other comprehensive income | 1,917,921 | 25,735 | 799 |

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

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

There were no transfers between the levels in the reporting period.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

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

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

| Group | 31 December 2018 | | |
|--|---------------------|---------------------|---------------------|
| | Level 1 HRK '000 | Level 2 HRK '000 | Level 3 HRK '000 |
| Financial assets at fair value through profit or loss: | | | |
| Loans at FVPL: | | | |
| Mezzanine loans | - | - | 2,045 |
| Investments in investment funds: | | | |
| Investments in investment funds at fair value through profit or loss | 334,060 | - | - |
| Equity instruments: | | | |
| Listed equity instruments: | | | |
| Investments in corporate shares | - | - | - |
| Unlisted equity instruments: | | | |
| Investments in corporate shares | - | - | - |
| Investment in financial institutions shares | - | 161 | - |
| Total financial assets at fair value through profit or loss | 334,060 | 161 | 2,045 |
| Financial assets at fair value through other comprehensive income: | | | |
| Debt instruments: | | | |
| Listed debt instruments: | | | |
| Bonds of the Republic of Croatia | 1,124,611 | - | - |
| Corporate bonds | 770 | - | - |
| Treasury bills of the Ministry of Finance | 1,666,299 | - | - |
| Accrued interest | 11,313 | - | - |
| Unlisted debt instruments: | | | |
| Corporate bonds | - | - | 535 |
| Accrued interest | - | - | 233 |
| Total debt instruments | 2,802,993 | - | 768 |
| Unlisted equity instruments: | | | |
| Investment in shares of foreign legal entities - SWIFT | - | 38 | - |
| Shares of foreign financial institutions – EIF | - | 25,671 | - |
| Total equity instruments | - | 25,709 | - |
| Total financial assets at fair value through other comprehensive income | 2,802,993 | 25,709 | 768 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

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

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

| Bank | 31 March 2019 | | |
|--|------------------|---------------|--------------|
| | Level 1 | Level 2 | Level 3 |
| | HRK '000 | HRK '000 | HRK '000 |
| Financial assets at fair value through profit or loss: | | | |
| <i>Loans at FVPL:</i> | | | |
| Mezzanine loans | - | - | 2,284 |
| <i>Investments in investment funds:</i> | | | |
| Investments in investment funds at fair value through profit or loss | 329,574 | - | - |
| Equity instruments: | | | |
| <i>Listed equity instruments:</i> | | | |
| Investments in companies' shares | - | - | - |
| <i>Unlisted equity instruments:</i> | | | |
| Investments in companies' shares | - | - | - |
| Investment in financial institutions shares | - | 161 | - |
| Total financial assets at fair value through profit or loss | 329,574 | 161 | 2,284 |
| Financial assets at fair value through other comprehensive income: | | | |
| Debt instruments: | | | |
| <i>Listed debt instruments:</i> | | | |
| Bonds of the Republic of Croatia | 1,171,998 | - | - |
| Treasury bills of the Ministry of Finance | 699,629 | - | - |
| Accrued interest | 8,446 | - | - |
| <i>Unlisted debt instruments:</i> | | | |
| Corporate bonds | - | - | 549 |
| Accrued interest | - | - | 250 |
| Total debt instruments | 1,880,073 | - | 799 |
| <i>Unlisted equity instruments:</i> | | | |
| Investment in shares of foreign legal entities – SWIFT | - | 38 | - |
| Shares of foreign financial institutions – EIF | - | 25,697 | - |
| Total equity instruments | - | 25,735 | - |
| Total financial assets at fair value through other comprehensive income | 1,880,073 | 25,735 | 799 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

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

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

| Bank | 31 December 2018 | | |
|--|---------------------|---------------------|---------------------|
| | Level 1 HRK '000 | Level 2 HRK '000 | Level 3 HRK '000 |
| Financial assets at fair value through profit or loss: | | | |
| Loans at FVPL: | | | |
| Mezzanine loans | - | - | 2,045 |
| Investments in investment funds: | | | |
| Investments in investment funds at fair value through profit or loss | 328,597 | - | - |
| Equity instruments: | | | |
| Listed equity instruments: | | | |
| Investments in companies' shares | - | - | - |
| Unlisted equity instruments: | | | |
| Investments in companies' shares | - | - | - |
| Investment in financial institutions shares | - | 161 | - |
| Total financial assets at fair value through profit or loss | 328,597 | 161 | 2,045 |
| Financial assets at fair value through other comprehensive income: | | | |
| Debt instruments: | | | |
| Listed debt instruments: | | | |
| Bonds of the Republic of Croatia | 1,088,457 | - | - |
| Treasury bills of the Ministry of Finance | 1,666,299 | - | - |
| Accrued interest | 10,839 | - | - |
| Unlisted debt instruments: | | | |
| Corporate bonds | - | - | 535 |
| Accrued interest | - | - | 233 |
| Total debt instruments | 2,765,595 | - | 768 |
| Unlisted equity instruments: | | | |
| Investment in shares of foreign legal entities – SWIFT | - | 38 | - |
| Shares of foreign financial institutions – EIF | - | 25,671 | - |
| Total equity instruments | - | 25,709 | - |
| Total financial assets at fair value through other comprehensive income | 2,765,595 | 25,709 | 768 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

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

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

25.1.1. Level 3 - fair value

a) Mezzanine loans

For the assessment of fair value of subordinate debt (mezzanine loans) financing, the method of discounting expected future cash flows is used.

Due to their contractual provisions, mezzanine loans do not pass the SPPI test. Mezzanine loans do not pass the SPPI test due to the following contractual provisions:

- in the case of realisation of contractually defined performance indicators (net debt to EBITDA ratio) over the predetermined period, creditors have the option, but not the obligation, to convert a mezzanine loan to a „senior debt“,
- upon the final maturity of the mezzanine loan, creditors have the option, but not the obligation, to convert the loan into the debtor's equity and
- the debtor has the option, but not the obligation, to prematurely repay the loan at discount.

Due to the above-mentioned provisions of the mezzanine loan, the assessment of their fair value was carried out in accordance with the precautionary principle, according to which income is recognised only when it is actually incurred, and expenses also when they are possible, under the assumption that the regular operations of debtor are continued in the future. This is a situation in which the Group would, upon the final maturity of the mezzanine loan, convert its receivables into the debtor's equity.

On 31 March 2019, the market price of ordinary shares of the debtor that the Bank could subscribe amounted to HRK 7,556 thousand, assuming that the market price of the shares included all market expectations related to future operations of the issuer. Given that HBOR can subscribe ordinary shares not earlier than on 30 April 2030, the amount of market value is reduced to the current value by applying the appropriate discount rate. The present value of these shares in HBOR's expected ownership amounts to HRK 2,284 thousand, which represents the fair value of the mezzanine loan on 31 March 2019.

b) Corporate bonds that are allocated to Stage 3

(i) Techniques of valuation and significant input data that are not visible

For the assessment of fair value of illiquid corporate bonds in the HBOR portfolio, the method of discounted cash flow of bonds is used. The fair value of bonds is the present value of all future cash flows of bonds calculated by applying the discount rate defined as yield on risk-free investments increased by the premium of specific credit risk for the respective bond and the premium for bond liquidity risk.

The discount rate on risk-free investments is calculated as linearly interpolated/extrapolated yield of Croatian bonds of the same duration and of the same foreign currency as the bonds valued. The source of information on the yields on bonds of the Republic of Croatia is the Bloomberg information system.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations

for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

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

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

25.1.1. Level 3 - fair value (continued)

b) Corporate bonds that are allocated to Stage 3 (continued)

(i) Techniques of valuation and significant input data that are not visible (continued)

The premium of the specific risk amount for the respective bond depends on HBOR's internal credit rating of the bond issuer, i.e. if the issuer is a member of a business group, the risk premium depends on internal credit rating of the parent company.

ii) Sensitivity analysis of corporate bond with the stated potential effect on profit/loss as at 29 March 2019, under the assumption of a change in discount rate (yield) of 2% and 10%

Under the assumption that the market interest rates change by 2% compared with those in effect as at 29 March 2019, the impacts would be as follows:

- a) In the case of a decrease in market yield on no-risk investment (linearly interpolated/extrapolated yield on bonds of the Republic of Croatia of the same duration and the same currency as the respective bond) by 2%, the discount rate would equal 11.02%, the bond price would be 37.57%, which would result in an increase in HBOR's generated profits of HRK 16.80 thousand.
- b) In the case of an increase in market yield on no-risk investment (linearly interpolated/extrapolated yield on bonds of the Republic of Croatia of the same duration and the same currency as the corporate bond) by 2%, the discount rate would equal 15.02%, the bond price would be 35.40%, which would result in a decrease in HBOR's generated profits of HRK 15.91 thousand.

The change in interest rates defined in the "Decision on the Management of Interest Rate Risk in the Bank Book", which is applied when calculating standard interest rate shock, is used as the basis for the change in the market interest rate of 2% compared with the market terms and conditions in effect as at 29 March 2019. "Standard interest rate shock is a parallel positive or negative change in interest rates on a reference yield curve of 200 basis points by applying the lower limit rate of 0%, except for the cases in which negative interest rate can be achieved."

In the case of a decrease in expected cash flows on corporate bonds of 10%, the generated profit of HBOR would decrease by HRK 54.96 thousand.

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

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

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

25.1.1. Level 3 - fair value (continued)

c) Adjustment of fair value of Level 3:

i) The fair value of Level 3 financial assets measured at fair value upon initial recognition – mezzanine loans:

| | Group | | Bank | |
|---|--------------|--------------|--------------|--------------|
| | Mar 31, 2019 | Mar 31, 2018 | Mar 31, 2019 | Mar 31, 2018 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance as at 1 January | 2,045 | 2,045 | 2,045 | 2,045 |
| Increase in fair value through profit or loss | 239 | - | 239 | - |
| Balance as of 31 March | 2,284 | 2,045 | 2,284 | 2,045 |

ii) The fair value of Level 3 financial assets measured at fair value upon initial recognition – unlisted debt securities:

| | Group | | Bank | |
|---|--------------|--------------|--------------|--------------|
| | Mar 31, 2019 | Mar 31, 2018 | Mar 31, 2019 | Mar 31, 2018 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Balance as at 1 January | 768 | 689 | 768 | 689 |
| Increase in fair value through other comprehensive income | 13 | 14 | 13 | 14 |
| Net foreign exchange | 1 | (17) | 1 | (17) |
| Accrued interest | 17 | 15 | 17 | 15 |
| Balance as of 31 March | 799 | 701 | 799 | 701 |

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

26. 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 interest by segments, the profitability of segments is not presented.

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

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

Business segments:

The Group has following business segments:

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

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

26. Reporting by segments (continued)

| 31 March 2019 | Banking activities HRK '000 | Insurance activities HRK '000 | Other activities HRK '000 | Unallocated HRK '000 | Total HRK '000 |
|---|--------------------------------|----------------------------------|------------------------------|-------------------------|-------------------|
| Net interest income | 81,211 | 327 | - | - | 81,538 |
| Net fee income | 6,716 | (577) | 1,274 | - | 7,413 |
| Net income/(expenses) from financial operations | 3,415 | 16 | 4 | 113 | 3,548 |
| Net premiums earned | - | 1,476 | - | - | 1,476 |
| Other income | 1,260 | 20 | 73 | (76) | 1,277 |
| Income from operating activities | 92,602 | 1,262 | 1,351 | 37 | 95,252 |
| Operating costs | (35,287) | (2,255) | 355 | 76 | (37,111) |
| Impairment loss and provisions | (36,052) | 40 | - | (3) | (36,015) |
| Expenses for insured cases | - | (56) | - | - | (56) |
| Net change in provisions | - | (372) | - | - | (372) |
| Other expenses | - | (54) | - | - | (54) |
| Operating expenses | (71,339) | (2,697) | 355 | 73 | (73,608) |
| Profit before income tax | 21,263 | (1,435) | 1,706 | 110 | 21,644 |
| Income tax | - | - | (14) | (19) | (33) |
| Profit for the year | 21,263 | (1,435) | 1,692 | 91 | 21,611 |
| Assets of segment | 26,682,577 | 56,487 | 1,576 | (36,700) | 26,703,940 |
| Total assets | 26,682,577 | 56,487 | 1,576 | (36,700) | 26,703,940 |
| Liabilities of segment | 16,596,970 | 13,139 | 145 | (27) | 16,610,227 |
| Total equity | 10,085,607 | 5,801 | 1,131 | 1,174 | 10,093,713 |
| Total liabilities and total equity | 26,682,577 | 18,940 | 1,276 | 1,147 | 26,703,940 |

Intra-group transactions are presented under "Unallocated".

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 Condensed Interim Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

26. Reporting by segments (continued)

| 31 March 2018 | Banking activities HRK '000 | Insurance activities HRK '000 | Other activities HRK '000 | Unallocated HRK '000 | Total HRK '000 |
|---|--|--|--|---------------------------------|---------------------------|
| Net interest income | 106,090 | 389 | - | - | 106,479 |
| Net fee income | 11,749 | 220 | 286 | - | 12,255 |
| Net income/(expenses) from financial operations | 13,216 | (116) | - | - | 13,100 |
| Net premiums earned | - | 1,611 | - | - | 1,611 |
| Other income | 1,235 | 21 | 77 | (81) | 1,252 |
| Income from operating activities | 132,290 | 2,125 | 363 | (81) | 134,697 |
| Operating costs | (31,773) | (1,272) | (311) | 81 | (33,275) |
| Impairment loss and provisions | (26,127) | (111) | 52 | - | (26,186) |
| Expenses for insured cases | - | (160) | - | - | (160) |
| Net change in provisions | - | 73 | - | - | 73 |
| Other expenses | - | (155) | - | - | (155) |
| Operating expenses | (57,900) | (1,625) | (259) | 81 | (59,703) |
| Profit before income tax | 74,390 | 500 | 104 | - | 74,994 |
| Income tax | - | - | - | - | - |
| Profit for the period | 74,390 | 500 | 104 | - | 74,994 |
| 31 December 2018 | | | | | |
| Assets of segment | 27,198,927 | 55,340 | 1,363 | (36,649) | 27,218,981 |
| Total assets | 27,198,927 | 55,340 | 1,363 | (36,649) | 27,218,981 |
| Liabilities of segment | 17,144,915 | 12,845 | 137 | (23) | 17,157,874 |
| Total equity | 10,054,012 | 4,995 | 926 | 1,174 | 10,061,107 |
| Total liabilities and total equity | 27,198,927 | 17,840 | 1,063 | 1,151 | 27,218,981 |

Intra-group transactions are presented under "Unallocated".

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

27. Capital management

The primary objectives of the Group'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 Group has identified own funds as a manageable capital category.

Regulatory capital has to be, at every moment, at least at the level of share capital or at the level that ensures that the capital adequacy ratio is at least 12% and that is sufficient for covering capital requirements regarding business risks.

Regulatory capital is comprised of core capital minus debit items.

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

- At the 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 Group calculates regulatory capital and capital requirements in accordance with Basel II requirements, and below is a breakdown of capital adequacy ratio as at 31 March 2019 and 31 December 2018.

| | Group | | Bank | |
|--|-------------------|---------------------|-------------------|---------------------|
| | 31 March 2019 | 31 December 2018 | 31 March 2019 | 31 December 2018 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Total regulatory capital | 9,838,783 | 9,816,139 | 9,838,452 | 9,815,749 |
| Credit risk weighted exposure amount | 15,754,235 | 15,519,739 | 15,739,348 | 15,504,641 |
| Initial credit requirements for operating risk | 897,361 | 897,363 | 877,875 | 877,863 |
| Initial capital requirements for currency risk | 438,100 | 725,300 | 419,229 | 706,112 |
| Total capital requirements | 17,089,696 | 17,142,402 | 17,036,452 | 17,088,616 |
| | % | % | % | % |
| Capital adequacy ratio | 57.57 | 57.26 | 57.75 | 57.44 |
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Own funds needed for ensuring capital adequacy according to regulatory requirements | 2,050,764 | 2,057,088 | 2,044,374 | 2,050,634 |

Minimum capital adequacy ratio on the reporting date, i.e. 31 March 2019 was 12% (31 December 2018: 12%).

Notes to the Condensed Interim Financial Statements which include significant accounting policies and other explanations for the period 1 January - 31 March 2019 (continued)

(All amounts are expressed in HRK thousand)

28. Events after the reporting period

Fund raising

After the reporting period, on 30 April 2019, HBOR concluded two finance contracts with the European Investment Bank:

- Finance Contract in the amount of EUR 50,000 thousand for Rijeka Clinical Centre, for the financing of a new mother and child care centre, a new thermal power block and parking lot and
- Finance Contract in the amount of EUR 292,500 thousand for increasing productivity and competitiveness of Croatian companies and creation of new jobs, especially for youth.

Appendix - Financial Performance of the HKO Group
Statement of Profit or Loss and Other Comprehensive Income
for the period 1 January - 31 March (unaudited)

(All amounts are expressed in HRK thousand)

| | Mar 31, 2019 HRK '000 | Mar 31, 2018 HRK '000 |
|---|--------------------------|--------------------------|
| Premium earned | | |
| Gross premium written | 2,337 | 2,271 |
| Premium impairment allowance originated and reserved on collection | (2) | (6) |
| Gross outward reinsurance premium | (1,030) | (760) |
| Net premium written | 1,305 | 1,505 |
| Changes in the gross unearned premium reserve | 336 | 245 |
| Changes in the gross unearned premium reserve, reinsurer's share | (165) | (145) |
| Net premium earned | 1,476 | 1,605 |
| Fee and commission income | 697 | 506 |
| Net investment income | 280 | 273 |
| Other operating income | 17 | 17 |
| Net income | 2,470 | 2,401 |
| Gross expense for returned premiums | (87) | (321) |
| Reinsurer's share | 33 | 166 |
| Gross reserve for returned premiums | (104) | 131 |
| Reinsurer's share | 48 | (66) |
| Net expense and reserve for returned premiums | (110) | (90) |
| Claims incurred | (156) | (132) |
| Claims incurred, reinsurer's share | 101 | (28) |
| Change in the claims provision | (1,618) | 15 |
| Change in the claims provision, reinsurer's share | 1,301 | (7) |
| Net claims incurred | (372) | (152) |
| Marketing and provision expenses | (235) | (237) |
| Administrative expenses | (1,416) | (1,245) |
| Other operating expenses | (26) | (73) |
| Net exchange differences other than those on financial instruments | 8 | - |
| Profit before income tax | 319 | 604 |
| Income tax | 3 | - |
| Profit for the period | 322 | 604 |
| Other comprehensive income | | |
| Items that are not transferred subsequently to profit or loss: | | |
| Deferred tax – adjustment for previous period | - | - |
| Total items that are not transferred subsequently to profit or loss | - | - |
| Items that may be reclassified subsequently to profit or loss: | | |
| Gains on revaluation of financial assets available for sale | 835 | 432 |
| Decrease in the fair value of financial assets available for sale | (79) | (131) |
| Transfer of realized gains on asset available for sale to profit or loss | - | - |
| Deferred tax | (135) | (55) |
| Total items that may be reclassified subsequently to profit or loss: | 621 | 246 |
| Other comprehensive income after income tax | 621 | 246 |
| Total comprehensive income after income tax | 943 | 850 |
| Attributable to: | | |
| Equity holder of the parent | 943 | 850 |

Profit before and after taxation in the separate financial statements of the HKO Group differs from the result in the Consolidated Income Statement of HBOR Group, as IFRS 9 has not been applied in separate financial statements.

Appendix - Financial Performance of the HKO Group (continued)

Statement of Financial Position as of (unaudited)

(All amounts are expressed in HRK thousand)

| | Mar 31, 2019 HRK '000 | Dec 31, 2018 HRK '000 |
|--|--------------------------|--------------------------|
| Assets | | |
| Non-current assets | | |
| Property and equipment | 141 | 50 |
| Intangible assets | 132 | 18 |
| Held to maturity investments | 1,365 | 1,366 |
| Deferred tax | 15 | - |
| Total non-current assets | 1,653 | 1,434 |
| Current assets | | |
| Investments available for sale | 37,849 | 42,569 |
| Investments at fair value through profit or loss | 5,585 | 291 |
| Deposits with banks | - | - |
| Receivables from insurance operations | 7,938 | 8,123 |
| Other receivables | 452 | 446 |
| Cash and cash equivalents | 4,076 | 3,363 |
| Total current assets | 55,900 | 54,792 |
| Total assets | 57,553 | 56,226 |
| Equity and liabilities | | |
| Equity | | |
| Share capital | 37,500 | 37,500 |
| Accumulated losses | 2,236 | 2,237 |
| Other reserves | 4,239 | 3,049 |
| Profit for the year | 322 | 481 |
| Total equity | 44,297 | 43,267 |
| Technical provisions | | |
| Gross technical provisions | 18,354 | 16,969 |
| Technical provisions, reinsurer's share | 9,905 | (8,721) |
| | 8,449 | 8,248 |
| Current liabilities | | |
| Liabilities from insurance operations | 2,484 | 2,549 |
| Other liabilities | 2,323 | 2,162 |
| Total liabilities | 4,807 | 4,711 |
| Total equity and liabilities | 57,553 | 56,226 |

Appendix - Financial Performance of the HKO Group
Statement of Cash Flows
for the period 1 January – 31 March (unaudited)

(All amounts are expressed in HRK thousand)

| | Mar 31, 2019 HRK '000 | Mar 31, 2018 HRK '000 |
|--|--------------------------|--------------------------|
| Operating activities | | |
| Profit before income tax | 332 | 604 |
| <i>Adjustments to reconcile to net cash from and used in operating activities:</i> | | |
| Depreciation | 9 | 9 |
| Impairment loss and provisions | (39) | 58 |
| Income tax | - | - |
| Accrued interest | 149 | 173 |
| <i>Operating profit before working capital changes</i> | <i>451</i> | <i>844</i> |
| Changes in operating assets and liabilities: | | |
| Net decrease in deposits with other banks | - | - |
| Net realized (gain)/loss on assets available for sale | - | - |
| Decrease of discount in assets available for sale and assets held to maturity | 51 | 62 |
| Net gain on financial assets at fair value through profit or loss | (4) | (3) |
| Premium receivables | 183 | (223) |
| Net decrease/(increase) in other assets | (76) | (122) |
| Net decrease of assets and liabilities from insurance operations | (65) | 568 |
| Net increase in technical provisions | 261 | (173) |
| Net increase in other liabilities | 161 | (446) |
| Net cash used in operating activities | 962 | 507 |
| Investment activities | | |
| Net purchase of financial assets at fair value through profit or loss | - | - |
| Net sale of financial assets at fair value through profit or loss | - | - |
| Net purchase of assets available for sale | - | (1,500) |
| Net sale of assets available for sale | - | - |
| Purchase of assets held to maturity | - | - |
| Collection of assets held to maturity when due | - | - |
| Net purchase of property, plant and equipment and intangible assets | (213) | (61) |
| Net cash provided investment activities | (213) | (1,561) |
| Effect of foreign currency to cash and cash equivalents | | |
| Net foreign exchange | (36) | 119 |
| Net effect | (36) | 119 |
| Net increase in cash and cash equivalents | 713 | (935) |
| Balance as of 1 January | 3,363 | 2,533 |
| Net increase in cash | 713 | (935) |
| Balance as of 31 March | 4,076 | 1,598 |

Appendix - Financial Performance of the HKO Group
Statement of Changes in Equity
for the period 1 January – 31 March (unaudited)
(All amounts are expressed in HRK thousand)

| | Share capital HRK '000 | Retained earnings and reserves HRK '000 | Other reserves HRK '000 | Profit/(loss) for the year HRK '000 | Total equity attributable to the equity holders of the Company HRK '000 | Total equity HRK '000 |
|--|------------------------------|---|-------------------------------|---|--|-----------------------------|
| Balance as of 1 January 2018 | 37,500 | 1,167 | 2,999 | 1,070 | 42,736 | 42,736 |
| Profit for the period | - | - | - | 604 | 604 | 604 |
| Other comprehensive income | - | - | 246 | - | 246 | 246 |
| Total comprehensive income | - | - | 246 | 604 | 850 | 850 |
| Transfer of profit 2017 to retained earnings | - | 1,070 | - | (1,070) | - | - |
| Balance as of 31 March 2018 | 37,500 | 2,237 | 3,245 | 604 | 43,586 | 43,586 |
| Balance as of 1 January 2019 | 37,500 | 2,237 | 3,049 | 481 | 43,267 | 43,267 |
| Profit for the period | - | - | - | 322 | 322 | 322 |
| Other comprehensive income | - | - | 621 | - | 621 | 621 |
| Total comprehensive income | - | - | 621 | 322 | 943 | 943 |
| Transfer of profit 2018 to retained earnings | - | 481 | - | (481) | - | - |
| Other adjustments | - | (482) | 569 | - | 87 | 87 |
| Balance as of 31 March 2019 | 37,500 | 2,236 | 4,239 | 322 | 44,297 | 44,297 |