

CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Condensed Separate and Consolidated Interim Financial Statements for the Period 1 January – 30 June 2020

Zagreb, September 2020

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 – 30 June 2020

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 11 to 139 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 11 to 139 have been approved by the Management Board on 30 September 2020 as confirmed by the signatures below.

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



Vedran Jakšić, MSc
Senior Executive Director



Marin Pranjić
Accounting Division Executive Director



Tamara Perko, MSc
President of the Management Board



Hrvoje Čuvalo, MSc
Member of the Management Board

Zagreb, 30 September 2020



Independent Auditors' Report to the owner of Croatian Bank for Reconstruction and Development

Report on the Audit of the Condensed Separate and Consolidated Interim Financial Statements

Opinion

We have audited the condensed separate financial statements of Croatian Bank for Reconstruction and Development ("the Bank") and condensed consolidated financial statements of the Bank and its subsidiaries ("the Group"), which comprise respective separate and consolidated statements of financial position as at 30 June 2020, and their respective separate and consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity for the six-month period then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the condensed financial statements").

In our opinion, the accompanying condensed financial statements of the Bank and the Group, as at 30 June 2020 and for the six-month period then ended, are prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Condensed Financial Statements* section of our report. We are independent of the Bank and the Group in accordance with the ethical requirements that are relevant to our audit of the condensed financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independent Auditor's Report to the owner of Croatian Bank for Reconstruction and Development (*continued*)

Report on the Audit of the Condensed Separate and Consolidated Interim Financial Statements (*continued*)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the condensed interim financial statements of the current period. These matters were addressed in the context of our audit of the condensed interim financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans to other customers

As at 30 June 2020, in the condensed interim financial statements of the Bank and the Group, gross loans to other customers: HRK 16,404 million, related impairment allowance: HRK 3,430 million and impairment loss recognised in the income statement for the six-month period then ended: HRK 16 million (31 December 2019: gross loans to other customers: HRK 17,064 million, impairment allowance: HRK 3,365 million; impairment loss recognised in the income statement for the six-month period ended 30 June 2019: HRK 218 million).

Please refer to note 1.3 *Impact of COVID-19 on HBOR's business and implementation of proposed measures to assist the economy in the coronavirus outbreak*, note 4 *Summary of significant accounting policies*, note 8 *Impairment loss and provisions*, note 12 *Loans to other customers*, and credit risk section of the note 25 *Risk management*.

Key audit matter

Loss allowances represent the Management Board's best estimate of the expected credit losses ("ECLs") within loans to other customers at the reporting date. We focused on this area as the determination of loss allowances requires a significant judgment over the amounts of any such impairment.

Impairment allowances for performing exposures (Stage 1 and Stage 2) and non-performing exposures (Stage 3) up to HRK 1.5 million individually are determined by modelling techniques ("collective impairment allowance"). Historical experience, identification of exposures with significant deterioration in credit quality, forward-looking information and management judgment are incorporated into the model assumptions.

For non-performing exposures exceeding HRK 1.5 million individually, the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. Related loss allowances are determined on an individual basis by means of a discounted cash flows analysis.

How our audit addressed the matter

Our audit procedures in this area included, among others:

- Assisted by our own financial instruments specialists, inspecting the Bank's and the Group's impairment provisioning methodology and assessing its compliance with the relevant requirements of the financial reporting standards;
- Inquiring of the risk management and information technology (IT) personnel to update our understanding of the provisioning process, IT applications used therein, key data sources and assumptions for data used in the ECL model. Also, assessing and testing of IT control environment for data security and access, assisted by our own IT specialists;
- Assessing and testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the identification of events of default, appropriateness of the classification of exposures into performing and non-performing and their segmentation into homogenous groups, calculation of days past due, collateral valuations and calculation of the loss allowances;

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Independent Auditor's Report to the owner of Croatian Bank for Reconstruction and Development (*continued*)

Report on the Audit of the Condensed Separate and Consolidated Interim Financial Statements (*continued*)

Key Audit Matters (*continued*)

Key audit matter

The World Health Organization declared on 11 March 2020 the coronavirus (COVID-19) outbreak a pandemic. As discussed in Note 1.3, to mitigate the impact of the outbreak, the Government of Croatia have launched aid initiatives for the hardest hit sectors and customers by implementing various sets of measures and making financing and liquidity facilities more flexible. All of these aspects have an impact on the PD's considered by the Bank and Group when quantifying the ECLs.

For the above reasons, impairment of loans to other customers was considered by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered the area to be our key audit matter.

How our audit addressed the matter

- On a sample basis, assessing and recalculating PD, LGD, EAD and ECL parameters and tracing the outcome of our independent assessment to the parameters used in the ECL calculations by the Bank and the Group, referred to below.

For loss allowances calculated individually:

- Selecting a sample of individual exposures, with focus on those from the economic sectors most affected by COVID-19, exposures with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk, such as watchlisted, restructured or rescheduled exposures, loans to clients operating in higher risk industries, non-performing exposures with low provision coverage and loans with significant change in the provision coverage;
- For the sample selected, critically assessing, by reference to the underlying documentation (loan files) and through inquiries of the Bank's and the Group's loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 30 June 2020;
- For those loans where triggers for classification in Stage 2 were identified, developing an independent estimate of the related ECL by using the parameters for Stage 2 exposures as determined by the Bank and the Group and as tested by us on a sample basis;
- For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Bank's and the Group's estimates of future cash flows used in the impairment calculation, such as discount rates, collateral values and realization period. We sought the Management Board's explanations for any material discrepancies identified as a result of the above procedures.

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Independent Auditors' Report to the owner of Croatian Bank for Reconstruction and Development (*continued*)

Report on the Audit of the Condensed Separate and Consolidated Interim Financial Statements (*continued*)

Key Audit Matters (*continued*)

Key audit matter

How our audit addressed the matter

For loss allowances calculated on a collective basis:

- Obtaining the relevant forward-looking information and macroeconomic forecasts used in the Bank's and the Group's ECL estimate. Independently assessing the information by reference to publicly available information, while also taking into account the situation arising from the COVID-19 pandemic;
- For a sample of exposures:
 - Tracing EAD data on exposures back to contractual data;
 - Challenging LGD and PD parameters, assessed as significant, by performing stress test scenarios for existing PD and LGD parameters of the Bank and Group;
 - Obtaining Bank's and the Group's results of back testing performed and seeking the Management Board's explanations for any material discrepancies identified;
 - Assessing the appropriateness of the staging, also considering COVID-19 measures and impact.

For loss allowances in total:

- Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposure in total gross exposure, and the non-performing loans provision coverage, while also taking into account the situation arising from the COVID-19 pandemic;
- Evaluating the accuracy and completeness of the related financial statement disclosures.

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Independent Auditors' Report to the owner of Croatian Bank for Reconstruction and Development (*continued*)

Report on the Audit of the Condensed Separate and Consolidated Interim Financial Statements (*continued*)

Responsibilities of Management and Those Charged with Governance for the Condensed Financial Statements

Management is responsible for the preparation of the condensed financial statements in all material respects in accordance with IAS 34 Interim Financial Reporting, and for such internal control as management determines is necessary to enable the preparation of the condensed financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the condensed financial statements, management is responsible for assessing the Bank's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and/or the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Condensed Financial Statements

Our objectives are to obtain reasonable assurance about whether the condensed financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these condensed financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the condensed financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and/or the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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Independent Auditors' Report to the owner of Croatian Bank for Reconstruction and Development (*continued*)

Report on the Audit of the Condensed Separate and Consolidated Interim Financial Statements (*continued*)

Auditors' Responsibilities for the Audit of the Condensed Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and/or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the condensed financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the condensed financial statements, including the disclosures, and whether the condensed financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the condensed financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the condensed financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Independent Auditors' Report to the owner of Croatian Bank for Reconstruction and Development (*continued*)

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 14 March 2018 to audit the condensed financial statements of the Bank and the Group for the six-month period ended 30 June 2020. Our total uninterrupted period of engagement is 2 years, covering the periods ending 30 June 2018 to 30 June 2020.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank dated 29 September 2020;
- for the period to which our statutory audit relates, we have not provided any non-audit services (NASs), hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

KPMG Croatia d.o.o. za reviziju

Croatian Certified Auditors

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30 September 2020

Katarina Kecko

Director, Croatian Certified Auditor

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Condensed Consolidated Interim Financial Statements of the Group
Income Statement
for the period 1 January – 30 June

(All amounts are expressed in HRK thousand)

	Notes	2020		2019	
		Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000
Interest income calculated using the effective interest method	5	151,597	312,119	158,683	321,983
Interest expense	6	(61,593)	(134,352)	(78,746)	(160,508)
Net interest income		90,004	177,767	79,937	161,475
Fee and commission income		6,180	12,179	6,713	14,497
Fee and commission expense		(326)	(617)	(1,512)	(1,883)
Net fee and commission income		5,854	11,562	5,201	12,614
Net gains/(losses) on financial operations		7,850	(11,226)	6,379	9,927
Other income		3,429	7,247	4,387	7,140
		107,137	185,350	95,904	191,156
Employee expenses	7 a)	(23,774)	(47,217)	(23,555)	(46,936)
Depreciation and amortization	7 b)	(2,372)	(4,575)	(1,845)	(3,712)
Other expenses	7 c)	(10,070)	(22,539)	(20,282)	(32,627)
Impairment loss and provisions	8	(75,728)	(93,367)	5,767	(30,248)
Profit/(loss) before income tax		(4,807)	17,652	55,989	77,633
Income tax		(1)	(229)	(70)	(103)
Profit/(loss) for the period		(4,808)	17,423	55,919	77,530
Profit/(loss) attributable to: Owner of the Bank		(4,808)	17,423	55,919	77,530

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 - 30 June

(All amounts are expressed in HRK thousand)

	2020		2019	
	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000
Profit/(loss) for the period	(4,808)	17,423	55,919	77,530
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:				
Net changes in financial assets at fair value through other comprehensive income	(1,152)	(21,789)	6,841	17,782
Net foreign exchange on equity instruments	(177)	410	(112)	(86)
Deferred tax – other comprehensive income	13	183	(121)	(237)
Total items that may be reclassified subsequently to profit or loss	(1,316)	(21,196)	6,608	17,459
Other comprehensive income/(loss) after income tax	(1,316)	(21,196)	6,608	17,459
Total comprehensive income/(loss) after income tax	(6,124)	(3,773)	62,527	94,989
Income/(loss) attributable to:				
Owner of the Bank	(6,124)	(3,773)	62,527	94,989

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	Jun 30, 2020 HRK '000	Dec 31, 2019 HRK '000
Assets			
Cash on hand and current accounts with banks	9	2,490,818	884,407
Deposits with other banks	10	131,894	553,470
Loans to financial institutions	11	9,107,681	9,447,706
Loans to other customers	12	12,973,711	13,699,634
Financial assets at fair value through profit or loss	13	183,057	203,833
Financial assets at fair value through other comprehensive income	14	2,327,471	1,578,810
Debt instruments at amortized cost	15	-	457
Investments in associates		-	-
Property, plant and equipment and intangible assets		48,630	48,281
Foreclosed assets	16	23,606	24,198
Other assets	17	36,594	29,815
Total assets		27,323,462	26,470,611
Liabilities			
Deposits from customers	18	370,550	176,769
Borrowings	19	16,147,581	14,400,453
Debt securities issued	20	-	1,158,291
Provisions for guarantees, commitments and other	21	151,144	120,780
Other liabilities	22	358,188	339,737
Total liabilities		17,027,463	16,196,030
Equity			
Founder's capital		7,134,632	7,109,632
Retained earnings and reserves		3,076,153	2,921,855
Other reserves		55,414	76,610
Profit for the period		17,423	154,298
Guarantee fund		12,377	12,186
Total equity		10,295,999	10,274,581
Total liabilities and total equity		27,323,462	26,470,611

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 - 30 June

(All amounts are expressed in HRK thousand)

	Notes	2020 HRK '000	2019 HRK '000
Operating activities			
Profit before income tax		17,652	77,633
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation and amortization		4,575	3,712
Income tax		(229)	(103)
Impairment loss and provisions		93,367	30,276
Accrued interest		(145,710)	(73,995)
Deferred fees		(1,395)	(1,006)
Other changes in assets at fair value		(936)	(2,024)
<i>(Operating loss)/profit before working capital changes</i>		<i>(32,676)</i>	<i>34,493</i>
<i>Changes in operating assets and liabilities:</i>			
Net decrease/(increase) in deposits with other banks, before impairment		422,206	(69,803)
Net decrease/(increase) in loans to financial institutions, before impairment		353,316	(52,325)
Net decrease/(increase) in loans to other customers, before loss impairment		763,029	(908,991)
Decrease of discount in debt securities issued and financial assets at fair value through other comprehensive income		1,545	1,883
Net decrease/(increase) in foreclosed assets		592	(2,183)
Net increase in other assets, before impairment		(9,136)	(4,218)
Net increase in deposits from banks and companies		193,781	580,410
Net increase/(decrease) in other liabilities, before provisions		18,144	(23,244)
Net cash provided from/(used in) operating activities		1,710,801	(443,978)
Investment activities			
Purchase of financial assets at fair value through profit or loss		(1,263)	-
Sale of financial assets at fair value through profit or loss		20,847	-
Other changes in financial assets at fair value through profit or loss		-	(67)
Purchase of financial assets at fair value through other comprehensive income		(1,219,322)	(487,141)
Sale of financial assets at fair value through other comprehensive income		449,346	1,616,397
Sale of debt instruments at amortized cost		448	-
Purchase of property, plant and equipment and intangible assets		(3,873)	(1,245)
Net cash (used in)/provided from investment activities		(753,817)	1,127,944
Financing activities			
Increase in founder's capital		25,000	25,000
Increase in borrowings – withdrawn funds		3,042,715	1,576,108
Decrease in borrowings – repayments of principal		(1,503,478)	(2,336,476)
Decrease in bonds payable - repayment		(1,135,104)	-
Other		(205)	3
Net cash provided from/(used in) financing activities		428,928	(735,365)
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		221,967	(42,770)
Net effect		221,967	(42,770)
Net increase/(decrease) in cash and cash equivalents		1,607,879	(94,169)
Cash and cash equivalents balance as of 1 January, before impairment		884,890	946,085
Net increase/(decrease) in cash and cash equivalents		1,607,879	(94,169)
Cash and cash equivalents balance as of 30 June before impairment	9	2,492,769	851,916
Additional note - Operational cash flows			
Interest paid		175,913	189,667
Interest received		177,538	248,463

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 - 30 June

(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 2019	7,059,632	2,717,118	67,474	204,737	12,146	10,061,107
Profit for the period	-	-	-	77,530	-	77,530
Other comprehensive income	-	-	17,459	-	-	17,459
Total comprehensive income	-	-	17,459	77,530	-	94,989
Net foreign exchange – Guarantee fund	-	-	-	-	(40)	(40)
Capital paid-in from the State Budget	25,000	-	-	-	-	25,000
Transfer of profit 2018 to retained earnings	-	204,737	-	(204,737)	-	-
Balance as at 30 June 2019	7,084,632	2,921,855	84,933	77,530	12,106	10,181,056
Balance as at 1 January 2020	7,109,632	2,921,855	76,610	154,298	12,186	10,274,581
Profit for the period	-	-	-	17,423	-	17,423
Other comprehensive income	-	-	(21,196)	-	-	(21,196)
Total comprehensive income	-	-	(21,196)	17,423	-	(3,773)
Net foreign exchange – Guarantee fund	-	-	-	-	191	191
Capital paid-in from the State Budget	25,000	-	-	-	-	25,000
Transfer of profit 2019 to retained earnings	-	154,298	-	(154,298)	-	-
Balance as at 30 June 2020	7,134,632	3,076,153	55,414	17,423	12,377	10,295,999

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 - 30 June
(All amounts are expressed in HRK thousand)

	Notes	2020		2019	
		Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000
Interest income calculated using the effective interest method	5	151,319	311,542	158,351	321,322
Interest expense	6	(61,584)	(134,333)	(78,745)	(160,505)
Net interest income		89,735	177,209	79,606	160,817
Fee and commission income		5,432	10,739	6,002	13,089
Fee and commission expense		(326)	(617)	(1,512)	(1,883)
Net fee and commission income		5,106	10,122	4,490	11,206
Net gains/(losses) on financial operations		7,935	(11,218)	6,343	9,758
Other income		1,579	3,757	2,961	4,221
		104,355	179,870	93,400	186,002
Employee expenses	7 a)	(22,649)	(45,105)	(22,601)	(45,093)
Depreciation and amortization	7 b)	(2,272)	(4,385)	(1,836)	(3,695)
Other expenses	7 c)	(9,423)	(20,966)	(18,669)	(29,605)
Impairment loss and provisions	8	(75,775)	(93,425)	5,502	(30,550)
Profit/(loss) before income tax		(5,764)	15,989	55,796	77,059
Income tax		-	-	-	-
Profit/(loss) for the period		(5,764)	15,989	55,796	77,059
Profit/(loss) attributable to: Owner of the Bank		(5,764)	15,989	55,796	77,059

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 - 30 June

(All amounts are expressed in HRK thousand)

	2020		2019	
	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000
Profit/(loss) for the period	(5,764)	15,989	55,796	77,059
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	(1,077)	(20,771)	6,380	16,674
Net foreign exchange on equity instruments	(177)	410	(112)	(86)
Total items that may be reclassified subsequently to profit or loss	(1,254)	(20,361)	6,268	16,588
Other comprehensive income after income/(loss) tax	(1,254)	(20,361)	6,268	16,588
Total comprehensive income/(loss) after income tax	(7,018)	(4,372)	62,064	93,647
Profit/(loss) attributable to:				
Owner of the Bank	(7,018)	(4,372)	62,064	93,647

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	Jun 30, 2020 HRK '000	Dec 31, 2019 HRK '000
Assets			
Cash on hand and current accounts with banks	9	2,475,962	881,487
Deposits with other banks	10	131,894	553,470
Loans to financial institutions	11	9,107,681	9,447,706
Loans to other customers	12	12,973,711	13,699,634
Financial assets at fair value through profit or loss	13	183,057	193,994
Financial assets at fair value through other comprehensive income	14	2,288,727	1,538,641
Investments in subsidiaries		36,124	36,124
Investments in associates		-	-
Property, plant and equipment and intangible assets		47,498	47,309
Foreclosed assets	16	23,606	24,198
Other assets	17	30,772	23,922
Total assets		27,299,032	26,446,485
Liabilities			
Deposits from customers	18	370,550	176,769
Borrowings	19	16,147,581	14,400,453
Debt securities issued	20	-	1,158,291
Provisions for guarantees, commitments and other liabilities	21	151,031	120,631
Other liabilities	22	341,957	323,247
Total liabilities		17,011,119	16,179,391
Equity			
Founder's capital		7,134,632	7,109,632
Retained earnings and reserves		3,074,406	2,919,356
Other reserves		50,509	70,870
Profit for the period		15,989	155,050
Guarantee fund		12,377	12,186
Total equity		10,287,913	10,267,094
Total liabilities and total equity		27,299,032	26,446,485

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 - 30 June

(All amounts are expressed in HRK thousand)

	Notes	2020 HRK '000	2019 HRK '000
Operating activities			
Profit before income tax		15,989	77,059
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>			
Depreciation and amortization		4,385	3,695
Impairment loss and provisions		93,425	30,550
Accrued interest		(145,778)	(73,998)
Deferred fees		(1,395)	(1,006)
Other changes in assets at fair value		(1,215)	(2,115)
<i>Operating (loss)/profit before working capital changes</i>		<i>(34,589)</i>	<i>34,185</i>
<i>Changes in operating assets and liabilities:</i>			
Net decrease/(increase) in deposits with other banks, before impairment		422,206	(69,803)
Net decrease/(increase) in loans to financial institutions, before impairment		353,316	(52,325)
Net decrease/(increase) in loans to other customers, before impairment		763,029	(908,991)
Decrease of discount in debt securities issued and financial assets at fair value through other comprehensive income		1,411	1,875
Net decrease/(increase) in foreclosed assets		592	(2,183)
Net increase in other assets, before impairment		(9,540)	(3,955)
Net increase in deposits from banks and companies		193,781	580,410
Net increase/(decrease) in other liabilities, before provisions		18,710	(25,272)
Net cash provided from/(used in) operating activities		1,708,916	(446,059)
Investment activities			
Purchase of financial assets at fair value through profit or loss income		(1,263)	-
Sale of financial assets at fair value through profit or loss		11,100	-
Other changes in financial assets at fair value through profit or loss		-	161
Purchase of financial assets at fair value through other comprehensive income		(1,216,278)	(487,141)
Sale of financial assets at fair value through other comprehensive income		446,000	1,616,397
Purchase of property, plant and equipment and intangible assets		(3,524)	(1,130)
Net cash (used in)/provided from investment activities		(763,965)	1,128,287
Financing activities			
Increase in founder's capital		25,000	25,000
Increase in borrowings – withdrawn funds		3,042,715	1,576,108
Decrease in borrowings – repayments of principle		(1,503,478)	(2,336,476)
Decrease in bonds payable - repayment		(1,135,104)	-
Other		(337)	3
Net cash provided from/(used in) financing activities		428,796	(735,365)
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		222,177	(42,836)
Net effect		222,177	(42,836)
Net increase/(decrease) in cash and cash equivalents		1,595,924	(95,973)
Cash and cash equivalents balance as of 1 January, before impairment		881,966	942,722
Net increase/(decrease) in cash and cash equivalents		1,595,924	(95,973)
Cash and cash equivalents balance as at 30 June before impairment	9	2,477,890	846,749
Additional note – operating activities			
Interest paid		175,913	189,667
Interest received		176,841	247,723

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 - 30 June

(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 2019	7,059,632	2,715,028	62,878	204,328	12,146	10,054,012
Profit for the period	-	-	-	77,059	-	77,059
Other comprehensive income	-	-	16,588	-	-	16,588
Total comprehensive income	-	-	16,588	77,059	-	93,647
Net foreign exchange – Guarantee fund	-	-	-	-	(40)	(40)
Capital paid-in from the State Budget	25,000	-	-	-	-	25,000
Transfer of profit 2018 to retained earnings	-	204,328	-	(204,328)	-	-
Balance as at 30 June 2019	7,084,632	2,919,356	79,466	77,059	12,106	10,172,619
Balance as at 1 January 2020	7,109,632	2,919,356	70,870	155,050	12,186	10,267,094
Profit for the period	-	-	-	15,989	-	15,989
Other comprehensive income	-	-	(20,361)	-	-	(20,361)
Total comprehensive income	-	-	(20,361)	15,989	-	(4,372)
Net foreign exchange – Guarantee fund	-	-	-	-	191	191
Capital paid-in from the State Budget	25,000	-	-	-	-	25,000
Transfer of profit 2019 to retained earnings	-	155,050	-	(155,050)	-	-
Balance as at 30 June 2020	7,134,632	3,074,406	50,509	15,989	12,377	10,287,913

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

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020

(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 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.

As of 30 June 2020, the Group had 387 employees (30 June 2019: 385 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 Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (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, Deputy Prime Minister of the Republic of Croatia and Minister of Finance
- ex officio President of the Supervisory Board,
- Tomislav Ćorić, DSc, Minister of the Economy and Sustainable Development – ex officio Vice
President of the Supervisory Board,
- Nikolina Brnjac, DSc, Minister of Tourism and Sports,
- Darko Horvat, Minister of Physical Planning, Construction and State Assets,
- Nataša Tramišak, Minister of Regional Development and EU Funds,
- Marija Vučković, MSc, Minister of Agriculture,
- Luka Burilović, DSc, President of the Croatian Chamber of Economy – ex officio Member of
the Supervisory Board.

Three members of the Supervisory Board from among the members of the Croatian Parliament are
expected to be appointed during October 2020.

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.

As of 30 June 2020, HBOR had 366 employees (30 June 2019: 365 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, Chief Audit Executive at Infobip, Member of the Audit Committee.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (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.

1.3. Impact of COVID-19 on HBOR's business and implementation of proposed measures to assist the economy in the coronavirus outbreak

The emergence of COVID-19 (coronavirus) and the global spread, particularly since mid-March, of the COVID-19 pandemic in most parts of the world, have created significant immediate challenges and risks and have undoubtedly affected economic activity in the Republic of Croatia, including the HBOR Group.

In order to make the crisis caused by the epidemic in the Republic of Croatia easier to overcome, the Government of the Republic of Croatia adopted a Proposal of measures to assist the economy in the wake of the coronavirus epidemic. The aim of the measures is to preserve the level of economic activity, the liquidity of economic operators and, most importantly, to preserve the jobs. HBOR, as a development bank, has an extremely important role and has been very active in implementing the following measures in these changed conditions:

- introduction of moratorium on clients' loan obligations under existing placements,
- Rescheduling of existing loans to HBOR's clients with introduction of a grace period in the loan principal repayment,
- Approval of new liquidity loans to economic entities for financing salaries, overhead expenses and other basic operating expenses, the so-called idle mode (excluding loan obligations to commercial banks and other financial institutions) in cooperation with commercial banks and directly. With these loans, HBOR provides support to economic entities through favourable loan terms and conditions, i.e. lower interest rates, which is made possible through the use of interest rate subsidies of the Ministry of Finance, the Ministry of Tourism and Sports and the Ministry of Agriculture,
- Approval of guarantees (insurance policies) to commercial banks of exporters and to HBOR under the Export Insurance Guarantee Fund with the aim of granting new loans for working capital – liquidity,
- Expanding the scope of the Export Insurance Guarantee Fund by including the tourism sector with the aim of enabling the issuance of guarantees (insurance policies) for loans to banks and to HBOR, for additional liquidity funds to exporters and tourism sector,
- Expanding the scope of the Export Insurance Guarantee Fund by further extending the circle of eligible beneficiaries of insurance policies from exports and tourism to economic entities that are indirect exporters or are suppliers of direct exporters.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

1. General information (continued)

1.3. Impact of COVID-19 on HBOR's business and implementation of proposed measures to assist the economy in the coronavirus outbreak (continued)

Until 30 June 2020, 792 requests for moratorium were entered in the business records of HBOR (number of loan references in the moratorium) in accordance with the initial moratorium on loan obligations maturing from 1 March 2020 until 30 June 2020, whereas after the reporting period, requests for a new moratorium are approved regarding the obligations maturing from 1 July 2020 until no later than:

- a) 30 September 2020 – for all clients of HBOR,
- b) 31 December 2020 – for all clients of HBOR that have a positive COVID score (with negative information included) according to FINA (Financial Agency),
- c) 30 June 2021 – for all clients of HBOR active in the tourism industry (see note 29.2. Events after the reporting period date).

In the reporting period, the HBOR Group and HBOR focused on key risks arising from financial instruments, and in particular on estimating the amounts arising from expected credit losses. Consequently, the changed environment affected the business results of the HBOR Group and HBOR in the half-year 2020 due to a higher level of provisions for possible credit losses.

Although the long-term impact of the pandemic on the Group's operations is currently difficult to quantify, the HBOR Group has a high level of capitalisation and liquidity and an appropriate level of provisions for exposures. Therefore, the Management Board of HBOR estimates that the continuity of business of the HBOR Group and HBOR is beyond doubt.

In order to mitigate the effects of COVID 19, the EBA has made certain recommendations to allow for greater flexibility in the implementation of accounting principles. HBOR took into account the above recommendations in the preparation of these financial statements. The impact of the COVID-19 effects on the Bank's and the Group's results is presented in the following notes:

- 8. Impairment loss and provisions;
- 25.3 Credit risk;
- 25.3.3 Analysis of input for ECL model within the framework of impact of macroeconomic conditions on PD;
- 25.3.2.5 Significant increase in credit risk and
- 25.1 Liquidity risk.

Furthermore, HBOR Group is comprised of HBOR as the parent company and of subsidiary companies: Hrvatsko kreditno osiguranje d.d. (hereinafter: HKO) and Poslovni info servis d.o.o. constituting HKO Group that represents 0.2% of the parent company's total assets. The Management Board of the subsidiary companies is taking the necessary measures to reduce the effects of the pandemic.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

2. Basis of Preparation of the Financial Statements

2.1. Statement of compliance

The Condensed Interim Financial Statements of the Bank and HBOR Group for the period 1 January to 30 June 2020 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 30 June 2020 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 2019.

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, financial assets at fair value through other comprehensive income and assets available for sale. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortized 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 and Group'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 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.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

4. Summary of significant accounting policies

4.1. 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 2020 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.

4.1.1. Other standards

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

- Amendment to IFRS 3 Business Combinations,
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform,
- Amendments to IAS 1 and IAS 8: Definition of Material,
- Amendments to References to Conceptual Framework in IFRS Standards.

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

5. Interest income calculated using the effective interest method

Interest income by borrowers:

	Group				Bank			
	2020		2019		2020		2019	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Public sector	26,764	50,438	24,165	47,933	26,486	49,861	23,833	47,272
State-owned companies	6,316	15,084	9,292	18,080	6,316	15,084	9,292	18,080
Foreign companies	7,943	18,595	10,627	21,284	7,943	18,595	10,627	21,284
Domestic companies	71,000	144,853	67,837	134,720	71,000	144,853	67,837	134,720
Domestic financial institutions	34,050	68,658	39,039	80,361	34,050	68,658	39,039	80,361
Foreign financial institutions	1	104	171	461	1	104	171	461
Penalty interest	1,427	5,659	2,785	9,211	1,427	5,659	2,785	9,211
Other	4,096	8,728	4,767	9,933	4,096	8,728	4,767	9,933
	151,597	312,119	158,683	321,983	151,319	311,542	158,351	321,322

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

5. Interest income calculated using the effective interest method (continued)

Interest income by type of facility:

	Group				Bank			
	2020		2019		2020		2019	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Interest on loans								
- financial institutions	34,050	68,660	39,051	80,367	34,050	68,660	39,051	80,367
- other customers	110,105	228,841	111,770	225,759	110,105	228,841	111,770	225,759
	144,155	297,501	150,821	306,126	144,155	297,501	150,821	306,126
Investments in securities	7,439	14,512	7,681	15,375	7,161	13,935	7,349	14,714
- Bonds of the Republic of Croatia	7,288	14,251	7,525	14,954	7,014	13,683	7,204	14,315
- Corporate bonds	45	90	28	56	41	81	17	34
- Treasury bills of the Ministry of Finance	106	171	128	365	106	171	128	365
Deposits	3	106	181	482	3	106	181	482
	151,597	312,119	158,683	321,983	151,319	311,542	158,351	321,322

The main 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 30 June 2020 amounts to HRK 19.502 thousand (1 January to 30 June 2019: HRK 25,975 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

6. Interest expense

Interest expense by type of payee:

	2020		2019		2020		2019	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Domestic financial institutions	113	336	1,468	3,657	113	336	1,468	3,657
Foreign financial institutions	61,440	133,931	77,263	156,818	61,440	133,931	77,263	156,818
Other	40	85	15	33	31	66	14	30
	61,593	134,352	78,746	160,508	61,584	134,333	78,745	160,505

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

6. Interest expense (continued)

Interest expense by type of facility:

	Group				Bank			
	2020		2019		2020		2019	
	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000
Borrowings	53,552	107,220	61,111	125,182	53,552	107,220	61,111	125,182
Debt securities	7,423	25,334	17,573	35,007	7,423	25,334	17,573	35,007
Deposits	578	1,713	47	286	578	1,713	47	286
Leases – interest expenses on long term contracts	40	85	15	33	31	66	14	30
	61,593	134,352	78,746	160,508	61,584	134,333	78,745	160,505

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

7. Operating expenses

Operating expenses can be shown as follows:

	Group				Bank			
	2020		2019		2020		2019	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
7 a) Employee expenses	23,774	47,217	23,555	46,936	22,649	45,105	22,601	45,093
7 b) Depreciation	2,372	4,575	1,845	3,712	2,272	4,385	1,836	3,695
7 c) Other expenses	10,070	22,539	20,282	32,627	9,423	20,966	18,669	29,605
Of which:								
<i>Administration expenses</i>	1,470	4,496	11,089	13,924	1,396	4,348	10,975	13,715
<i>Material and services</i>	7,481	14,014	7,259	13,456	7,151	13,329	6,882	12,680
<i>Other expenses</i>	1,119	4,029	1,934	5,247	876	3,289	812	3,210
	36,216	74,331	45,682	83,275	34,344	70,456	43,106	78,393

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

7. Operating expenses (continued)

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

	2020		Group 2019		2020		Bank 2019	
	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000	Current period April 1 – June 30 HRK '000	Cumulatively January 1 – June 30 HRK '000
Change in the claims provision	45	324	(1,085)	756	-	-	-	-
Change in the claims provision, reinsurer's share	(54)	(255)	1,507	158	-	-	-	-
Expenses of insurance operations	(9)	69	422	914	-	-	-	-

Loss provisions as at 30 June 2020 consisted of reported and unreported losses in the approximate proportion 46:54. At the end of Q2 2020, total reserves exceeded those at the end of 2019 by 2.5%. 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 Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2020 (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			
	2020		2019		2020		2019	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Impairment losses on cash on hand and due from financial institutions	1,090	1,459	(170)	(871)	1,087	1,440	(160)	(862)
Impairment losses on deposits with other banks	(149)	(512)	635	433	(149)	(512)	635	433
Impairment losses on loans to financial institutions	(3,892)	(5,552)	(32,372)	(40,696)	(3,892)	(5,552)	(32,372)	(40,696)
Impairment losses on loans to other customers and interest	18,325	16,036	109,692	217,510	18,325	16,036	109,692	217,510
Modification loss/(gain) – financial institutions	(837)	(1,115)	710	7,127	(837)	(1,115)	710	7,127
Modification (gain)/loss – other customers	(790)	35,071	(1,394)	12,347	(790)	35,071	(1,394)	12,347
POCI assets – fair value adjustment at initial recognition	7,363	17,476	7,500	19,019	7,363	17,476	7,500	19,019
Impairment of financial assets at fair value through other comprehensive income	516	419	(1,884)	(3,434)	517	420	(1,655)	(3,208)
Impairment losses on Debt instruments at amortised cost	-	-	(1)	(1)	-	-	-	-
Impairment losses on other assets	615	550	2,458	2,468	629	590	2,463	2,514
Provisions for commitments	56,538	32,645	(19,480)	(24,768)	56,538	32,645	(19,480)	(24,768)
Provision for guarantees	548	733	(68,032)	(155,365)	548	733	(68,032)	(155,365)
Total	79,327	97,210	(2,338)	33,769	79,339	97,232	(2,093)	34,051

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

8 Impairment loss and provisions (continued)

b) Other impairment losses and provisions

	Group				Bank			
	2020		2019		2020		2019	
	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively	Current period	Cumulatively
	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30	April 1 – June 30	January 1 – June 30
HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	
Impairment losses on foreclosed assets	-	-	-	95	-	-	-	95
Provision for other liabilities	(3,599)	(3,843)	(3,429)	(3,616)	(3,564)	(3,807)	(3,409)	(3,596)
Total	(3,599)	(3,843)	(3,429)	(3,521)	(3,564)	(3,807)	(3,409)	(3,501)
Total	75,728	93,367	(5,767)	30,248	75,775	93,425	(5,502)	30,550

Impairment loss and provisions in the reporting period 2020 amount to HRK 93,367 thousand for the Group and HRK 93,425 thousand for HBOR, which is significantly higher than the loss realised in the same reporting period 2019, when the loss for the Group stood at HRK 30,248 thousand and for HBOR at HRK 30,550 thousand.

The significant increase in provisions is in line with the expectations of the Management Board and reflects the increased estimates of credit losses, which relate in part to individual client assessments and in part to collective client assessments, and include the expected client default percentage and uncertainty about certain economic developments resulting from COVID-19 at the end of June 2020.

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

9. Cash on hand and current accounts with banks

	Group		Bank	
	30 June 2020 HRK 000	31 December 2019 HRK 000	30 June 2020 HRK 000	31 December 2019 HRK 000
Account with the Croatian National Bank	1,753,027	233,240	1,753,027	233,240
Cash on hand	5	5	5	5
Foreign currency account - domestic banks	865	708	861	703
Foreign currency account - foreign banks	724,768	649,833	723,997	648,018
Domestic currency account - domestic banks	14,104	1,104	-	-
	<u>2,492,769</u>	<u>884,890</u>	<u>2,477,890</u>	<u>881,966</u>
Loss allowances	(1,951)	(483)	(1,928)	(479)
	<u>2,490,818</u>	<u>884,407</u>	<u>2,475,962</u>	<u>881,487</u>

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

30 June 2020	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	2,492,764	-	-	2,492,764	2,477,885	-	-	2,477,885
Loss allowances	(1,951)	-	-	(1,951)	(1,928)	-	-	(1,928)
Balance as of 30 June 2020	<u>2,490,813</u>	<u>-</u>	<u>-</u>	<u>2,490,813</u>	<u>2,475,957</u>	<u>-</u>	<u>-</u>	<u>2,475,957</u>

31 December 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	884,885	-	-	884,885	881,961	-	-	881,961
Loss allowances	(483)	-	-	(483)	(479)	-	-	(479)
Balance as of 31 December 2019	<u>884,402</u>	<u>-</u>	<u>-</u>	<u>884,402</u>	<u>881,482</u>	<u>-</u>	<u>-</u>	<u>881,482</u>

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (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 – Jun 30, 2020	Group Jan 1 - Dec 31, 2019	Jan 1 – Jun 30, 2020	Bank Jan 1 - Dec 31, 201
	HRK 000	HRK 000	HRK 000	HRK 000
Balance as of 1 January	483	1,668	479	1,651
Net increase/(decrease) of loss allowances on amounts due from banks	1,459	(1,190)	1,440	(1,177)
<i>Total recognised through Income Statement (Note 8)</i>	<i>1,459</i>	<i>(1,190)</i>	<i>1,440</i>	<i>(1,177)</i>
Net foreign exchange gain/loss on loss allowances	9	5	9	5
Balance at the end of the reporting period	1,951	483	1,928	479

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

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

10. Deposits with other banks

	Group		Bank	
	30 June 2020 HRK '000	31 December 2019 HRK '000	30 June 2020 HRK '000	31 December 2019 HRK '000
Deposits with foreign banks	378	372,501	378	372,501
Deposits with domestic banks	132,279	182,343	132,279	182,343
Accrued interest	-	(118)	-	(118)
	132,657	554,726	132,657	554,726
Loss allowances	(763)	(1,256)	(763)	(1,256)
	131,894	553,470	131,894	553,470

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

30 June 2020

	Stage 1	Stage 2	Stage 3	Group	Stage 1	Stage 2	Stage 3	Bank
	HRK 000	HRK 000	HRK 000	Total HRK 000	HRK 000	HRK 000	HRK 000	Total HRK 000
Gross amount	132,657	-	-	132,657	132,657	-	-	132,657
Loss allowances	(763)	-	-	(763)	(763)	-	-	(763)
Balance as of 30 June 2020	131,894	-	-	131,894	131,894	-	-	131,894

31 December 2019

	Stage 1	Stage 2	Stage 3	Group	Stage 1	Stage 2	Stage 3	Bank
	HRK 000	HRK 000	HRK 000	Total HRK 000	HRK 000	HRK 000	HRK 000	Total HRK 000
Gross amount	554,726	-	-	554,726	554,726	-	-	554,726
Loss allowances	(1,256)	-	-	(1,256)	(1,256)	-	-	(1,256)
Balance as of 31 December 2019	553,470	-	-	553,470	553,470	-	-	553,470

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (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	Group	Bank	Bank
	Jan 1 – Jun 30,	Jan 1 - Dec 31,	Jan 1 – Jun 30,	Jan 1 - Dec 31,
	2020	2019	2020	2019
	HRK 000	HRK 000	HRK 000	HRK 000
Balance as of 1 January	1,256	1,361	1,256	1,361
Net (decrease) of loss allowances on deposits with other banks	(512)	(112)	(512)	(112)
<i>Total recognised through Income Statement (Note 8)</i>	<i>(512)</i>	<i>(112)</i>	<i>(512)</i>	<i>(112)</i>
Net foreign exchange gain/loss on loss allowances	19	7	19	7
Balance at the end of the reporting period	763	1,256	763	1,256

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

11. Loans to financial institutions

	Group and Bank	
	30 June 2020 HRK '000	31 December 2019 HRK '000
Long-term loans under loan programmes	9,045,250	9,395,321
Short-term loans and reverse repo transactions	139,264	141,075
Accrued interest	8,800	5,936
Deferred recognition of loan origination fees	(32,153)	(35,928)
	9,161,161	9,506,404
Loss allowances	(53,480)	(58,698)
	9,107,681	9,447,706

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

30 June 2020	Group and Bank			
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Total HRK 000
Gross amount	9,065,847	73,778	21,536	9,161,161
Loss allowances	(33,353)	(9,266)	(10,861)	(53,480)
Balance as of 30 June 2020	9,032,494	64,512	10,675	9,107,681

31 December 2019	Group and Bank			
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	Total HRK 000
Gross amount	9,400,433	83,619	22,352	9,506,404
Loss allowances	(37,098)	(10,543)	(11,057)	(58,698)
Balance as of 31 December 2019	9,363,335	73,076	11,295	9,447,706

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (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:

	Jan 1 - Jun 30, 2020 HRK 000	Group and Bank Jan 1 - Dec 31, 2019 HRK 000
Balance as of 1 January	58,698	117,154
Net decrease of loss allowances on loans to financial institutions	(5,552)	(58,486)
<i>Total recognised through Income Statement (Note 8)</i>	<i>(5,552)</i>	<i>(58,486)</i>
Net foreign exchange gain/loss on loss allowances	355	29
Loss allowances transferred to loans to other customers	(36)	(3)
Unwinding – changes due to the lapse of time	15	4
Balance at the end of the reporting period	53,480	58,698

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (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:

	Group and Bank	
	30 June	31 December
	2020	2019
	HRK '000	HRK '000
EU Projects	77,215	-
Financial Restructuring	3,983	-
Pre-Export Finance	1,018	-
Public Sector Investment	123,488	-
Private Sector Investment	131,552	-
Youth, Female, Start-up Entrepreneurship	24,075	-
Working Capital	1,028	-
Loan programme for reconstruction and development of the economy	1,481,879	1,637,578
Export financing	2,128,444	2,279,986
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	1,352,250	1,350,974
Loan programme for small and medium-sized enterprises	3,715,087	4,121,003
Loan programme for war-torn and demolished housing and business facilities	5,231	5,780
Other	139,264	141,075
Accrued interest	8,800	5,936
Deferred recognition of loan fees	(32,153)	(35,928)
	9,161,161	9,506,404
Loss allowances	(53,480)	(58,698)
	9,107,681	9,447,706

Average interest rates for total loans to financial institutions are stated at 0.51% (1 January - 30 June 2019: 0.59%) and are equal to average interests 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 39,264 thousand (31 December 2019: HRK 41,075 thousand). The above placements are collateralized by securities in the amount of HRK 41,426 thousand (31 December 2019: HRK 43,115 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (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	
	30 June	31 December
	2020	2019
	HRK '000	HRK '000
Domestic companies	10,787,524	10,551,828
State-owned companies	1,039,269	1,253,879
Public sector	2,749,302	3,710,224
Foreign companies	982,454	794,802
Non-profit institutions	5,900	5,900
Other	548,994	557,577
Accrued interest	380,168	281,512
Deferred recognition of loan origination fees	(89,703)	(91,014)
	<u>16,403,908</u>	<u>17,064,708</u>
Loss allowances	(3,430,197)	(3,365,074)
	<u>12,973,711</u>	<u>13,699,634</u>

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

30 June 2020	Group and Bank				
	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
Gross amount	9,541,721	1,697,693	3,879,885	1,284,609	16,403,908
Loss allowances	(344,144)	(569,370)	(2,370,752)	(145,931)	(3,430,197)
Balance as of 30 June 2020	<u>9,197,577</u>	<u>1,128,323</u>	<u>1,509,133</u>	<u>1,138,678</u>	<u>12,973,711</u>

31 December 2019	Group and Bank				
	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
Gross amount	10,387,025	1,764,833	3,727,938	1,184,912	17,064,708
Loss allowances	(302,945)	(627,951)	(2,313,514)	(120,664)	(3,365,074)
Balance as of 31 December 2019	<u>10,084,080</u>	<u>1,136,882</u>	<u>1,414,424</u>	<u>1,064,248</u>	<u>13,699,634</u>

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

12. Loans to other customers

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

	Jan 1 - Jun 30, 2020 HRK 000	Group and Bank Jan 1 - Dec 31, 2019 HRK 000
Balance as of 1 January	3,365,074	3,380,296
Net release of loss allowances on loans to other customers and interest	16,036	(33,136)
<i>Total recognised through Income Statement (Note 8)</i>	<u>16,036</u>	<u>(33,136)</u>
Net foreign exchange gain/loss on loss allowances	22,708	9,126
Write-offs	(114)	(26,751)
Write-off due to sale of receivables	-	(52)
Loss allowances transferred from loans to financial institutions	36	3
Unwinding – changes due to the lapse of time	21,246	33,618
Acquisition of immovable property	(799)	(6,475)
Conversion of receivables into shares	-	(1,812)
Interest transferred from the off-balance sheet records and other	6,010	10,257
Balance at the end of the reporting period	<u>3,430,197</u>	<u>3,365,074</u>

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

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

12. Loans to other customers

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

	Group and Bank	
	30 June 2020	31 December 2019
	HRK '000	HRK '000
EU Projects	50,219	-
Financial Restructuring	276,628	-
Pre-Export Finance	26,109	-
Public Sector Investment	360,682	-
Private Sector Investment	341,039	-
Youth, Female, Start-up Entrepreneurship	8,640	-
Working Capital	361,814	-
Loan programme for reconstruction and development of the economy	3,110,845	3,968,956
Export financing	5,380,775	5,169,252
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	4,348,137	4,347,002
Loan programme for small and medium-sized enterprises	1,572,416	1,616,868
Working Capital – COVID measures	2,660	-
Other	273,479	1,772,132
Accrued interest	380,168	281,512
Deferred recognition of loan origination fees	(89,703)	(91,014)
	<u>16,403,908</u>	<u>17,064,708</u>
Loss allowances	<u>(3,430,197)</u>	<u>(3,365,074)</u>
	<u>12,973,711</u>	<u>13,699,634</u>

Average interest rates on loans to other customers are stated at 1.68% (1 January - 30 June 2019: 1.65%).

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

13. Financial assets at fair value through profit or loss

	Group		Bank	
	30 June 2020 HRK '000	31 December 2019 HRK '000	30 June 2020 HRK '000	31 December 2019 HRK '000
Loans at FVPL:				
Mezzanine loans	2,064	2,234	2,064	2,234
	2,064	2,234	2,064	2,234
Investments in investment				
Investments in investment funds at FVPL	180,254	200,868	180,254	191,029
	180,254	200,868	180,254	191,029
Unlisted equity				
Investments in corporate	31	31	31	31
Depository receipt - DR	547	539	547	539
Investments in financial institutions' shares	161	161	161	161
	739	731	739	731
	183,057	203,833	183,057	193,994

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 2019: HRK 0 thousand).

The shares of companies not listed on the stock exchange in the amount of HRK 31 thousand (0.03% portion) relate to the shares of the company Helios Faros d.d., in bankruptcy, acquired by HBOR in substitution for a portion of receivables by accepting the company's bankruptcy restructuring plan.

Non-listed equity securities in the amount of HRK 547 thousand relate to depository receipts (DR) of the Fortenova Group STAK Stichting taken over through the Settlement under the Extraordinary Administration Proceedings against the company Agrokor d.d. et al.

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 2019: HRK 161 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

14. Financial assets at fair value through other comprehensive income

	30 June 2020 HRK '000	Group 31 December 2019 HRK '000	30 June 2020 HRK '000	Bank 31 December 2019 HRK '000
Debt instruments:				
Listed debt instruments:				
Bonds of the Republic of Croatia	1,193,436	1,122,448	1,156,080	1,083,749
Corporate bonds	977	1,000	-	-
Treasury bills of the Ministry of Finance	1,092,602	414,788	1,092,602	414,788
Accrued interest	10,442	11,232	10,031	10,762
	2,297,457	1,549,468	2,258,713	1,509,299
Unlisted debt instruments:				
Corporate bonds	586	573	586	573
Convertible bonds - CB	2,281	2,155	2,281	2,155
Accrued interest	364	369	364	369
	3,231	3,097	3,231	3,097
Equity instruments:				
Unlisted equity instruments:				
Investments in shares of foreign legal entities - SWIFT	41	40	41	40
Shares of foreign financial institutions – EIF	26,742	26,205	26,742	26,205
	26,783	26,245	26,783	26,245
	2,327,471	1,578,810	2,288,727	1,538,641

Non-listed convertible bonds (CB) of the Fortenova Group TopCo B.V. in the amount of HRK 2,281 thousand (31 December 2019: HRK 2,155 thousand) have been taken over through the Settlement under the Extraordinary Administration Proceedings against the company Agrokor d.d. et al.

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

30 June 2020	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	2,298,384	-	2,304	2,300,688	2,259,640	-	2,304	2,261,944
Balance as of 30 June 2020	2,298,384	-	2,304	2,300,688	2,259,640	-	2,304	2,261,944
31 December 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	1,549,468	875	2,222	1,552,565	1,509,299	875	2,222	1,512,396
Balance as of 31 December 2019	1,549,468	875	2,222	1,552,565	1,509,299	875	2,222	1,512,396

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

14. Financial assets at fair value through other comprehensive income

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

	Group		Bank	
	Jan 1 – Jun 30, 2020 HRK 000	Jan 1 – Dec 31, 2019 HRK 000	Jan 1 – Jun 30, 2020 HRK 000	Jan 1 – Dec 31, 2019 HRK 000
Balance as of 1 January	3,355	6,746	3,283	6,459
Net (release) of loss allowances	419	(3,401)	420	(3,186)
<i>Total recognised through Income Statement (Note 8)</i>	<i>419</i>	<i>(3,401)</i>	<i>420</i>	<i>(3,186)</i>
Net foreign exchange gain/loss on loss allowances	41	10	41	10
Balance at the end of the reporting period	3,815	3,355	3,744	3,283

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

Notes to the Financial Statements which include significant accounting policies
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for the period 1 January - 30 June 2020 (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 (%)	30 June 2020 HRK '000	Group 31 December 2019 HRK '000	30 June 2020 HRK '000	Bank 31 December 2019 HRK '000	
Listed debt instruments:								
Debt instruments:								
<i>Bonds of the Republic of Croatia with a currency clause:</i>								
	RHMF-O-227E	22.7.2011.	22.7.2022.	6.5	161,123	164,005	161,123	164,005
	RHMF-O-247E	10.7.2013.	10.7.2024.	5.75	17,931	18,264	12,694	12,894
	RHMF-O-203E	5.3.2010.	5.3.2020.	6.5	-	753	-	-
	RHMF-O222E	5.2.2019.	5.2.2022.	0.5	15,089	14,963	15,089	14,963
<i>Bonds of the Republic of Croatia in foreign currency:</i>								
	XS1117298916	11.3.2015.	11.3.2025.	3.0	124,630	58,954	124,630	58,954
	XS1843434876	19.6.2019.	19.10.2029.	1.125	14,963	15,376	14,963	15,376
	XS1028953989	17.06.2020.	17.06.2031.	1.500	57,051	-	57,051	-
<i>Bonds of the Republic of Croatia in HRK:</i>								
	RHMF-O-203A	5.3.2010.	5.3.2020.	6.75	-	32,965	-	30,331
	RHMF-O-257A	9.7.2015.	9.7.2025.	4.5	9,904	10,229	-	-
	RHMF-O-26CA	14.12.2015.	14.12.2026.	4.25	45,852	47,643	36,182	37,700
	RHMF-O-217A	8.7.2016.	8.7.2021.	2.75	222,741	226,436	220,691	224,355
	RHMF-O-222A	7.2.2017.	7.2.2022.	2.25	71,584	72,918	71,584	72,918
	RHMF-O-282A	7.2.2017.	7.2.2028.	2.875	13,553	14,026	11,389	11,800
	RHMF-O-023BA	27.11.2017.	27.11.2023.	1.75	430,684	440,453	430,684	440,453
	RHMF-O-297A	9.7.2018.	9.7.2029.	2.38	3,351	3,483	-	-
	RHMF-O-34BA	27.11.2019.	27.11.2034.	1.00	1,951	1,980	-	-
	RHMF-O-403E	3.3.2020.	3.3.2040.	1.25	3,029	-	-	-
<i>Corporate bonds in HRK:</i>								
	JDGL-O-24XA	18.12.2019.	18.12.2024.	1.75	977	1,000	-	-
	Treasury bills in HRK up to 364 days			0.037-0.306	1,077,495	399,912	1,077,495	399,912
	Treasury bills with currency clause up to 295 days			0.441	15,107	14,876	15,107	14,876
	Accrued interest				10,442	11,232	10,031	10,762
					2,297,457	1,549,468	2,258,713	1,509,299
Unlisted debt instruments:								
<i>Corporate bonds with a currency clause:</i>								
	LNGU-O-31AE	24.7.2015.	15.10.2031.	4.5	586	573	586	573
<i>Bonds of foreign corporate in foreign currency</i>								
	Fortenova Group TopCo B.V.	1.4.2019.	1.4.2029.	2.5	2,281	2,155	2,281	2,155
	Accrued interest				364	369	364	369
					3,231	3,097	3,231	3,097
Equity instruments:								
<i>Unlisted equity instruments:</i>								
	Investments in shares of foreign legal entities - SWIFT				41	40	41	40
	Investments in shares of foreign financial institutions - EIF				26,742	26,205	26,742	26,205
					26,783	26,245	26,783	26,245
Total					2,327,471	1,578,810	2,288,727	1,538,641

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

15. Debt instruments at amortized cost

	Group		Bank	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019
	HRK '000	HRK '000	HRK '000	HRK '000
Debt instruments:				
Listed debt instruments:				
Bonds of the Republic of Croatia	-	448	-	-
Accrued interest	-	9	-	-
	-	457	-	-
Loss allowances	-	-	-	-
	-	457	-	-

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

30 June 2020	Stage 1	Stage 2	Stage 3	Group	Stage 1	Stage 2	Stage 3	Bank
	HRK 000	HRK 000	HRK 000	Total HRK 000	HRK 000	HRK 000	HRK 000	Total HRK 000
Gross amount	-	-	-	-	-	-	-	-
Loss allowances	-	-	-	-	-	-	-	-
Balance as of 30 June 2020	-	-	-	-	-	-	-	-
31 December 2019	Stage 1	Stage 2	Stage 3	Group	Stage 1	Stage 2	Stage 3	Bank
	HRK 000	HRK 000	HRK 000	Total HRK 000	HRK 000	HRK 000	HRK 000	Total HRK 000
Gross amount	457	-	-	457	-	-	-	-
Loss allowances	-	-	-	-	-	-	-	-
Balance as of 31 December 2019	457	-	-	457	-	-	-	-

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

	Group		Bank	
	Jan 1 - Jun 30, 2020	Jan 1 - Dec 31, 2019	Jan 1 - Jun 30, 2020	Jan 1 - Dec 31, 2019
	HRK '000	HRK '000	HRK '000	HRK '000
Balance as of 1 January	-	2	-	-
Net release of loss allowances on debt instruments at amortised cost	-	(2)	-	-
Balance at the end of the reporting period	-	-	-	-

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%. The bonds were redeemed upon maturity on 5 March 2020 (31 December 2019: HRK 448 thousand).

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

16. Foreclosed assets

	30 June 2020	Group and Bank
	HRK '000	31 December 2019
		HRK '000
Foreclosed assets	23,606	24,198
	23,606	24,198

In the reporting period 2020, acquisition of property took place with present value in the amount of HRK 215 thousand, acquisition value of HRK 586 thousand and provisions of HRK 371 thousand, and relates to land plot in the amount of HRK 64 thousand, acquisition value of HRK 212 thousand and provisions of HRK 148 thousand and buildings in the amount of HRK 151 thousand, acquisition value of HRK 374 thousand and provisions of HRK 223 thousand (in 2019, acquisition of property took place with present value in the amount of HRK 3,084 thousand, acquisition value of HRK 14,215 thousand and provisions of HRK 11,131 thousand, and relates to buildings).

Fair value of acquired property at the end of second quarter 2020 amounted to HRK 586 thousand.

In the reporting period, sale of foreclosed assets took place with present value in the amount of HRK 155 thousand, acquisition value of HRK 283 thousand and provisions of HRK 128 thousand and relates to apartments (in 2019, sale of foreclosed assets took place with present value in the amount of HRK 4,244 thousand, acquisition value and provisions of HRK 9,361 thousand and provisions of HRK 5,117 thousand and relates to land plot in the amount of HRK 2,297 thousand, buildings in the amount of HRK 1,916 thousand and apartments of HRK 31 thousand).

In the reporting period 2020, foreclosed assets was transferred to lease on the item Investments in property in the amount of HRK 1,739 thousand (2019: HRK 1,124 thousand), which is presented under Other assets due to immaterial significance. In the reporting period, this property was depreciated in the amount of HRK 37 thousand (2019: HRK 83 thousand).

The fair value of foreclosed assets at the beginning of the reporting period stood at HRK 46,275 thousand and the end of the reporting period at HRK 41,358 thousand.

The amount of the adjustment for the Group and the Bank that has an effect on the profit or loss stood at HRK 0 thousand in 2020 (in 2019: increase of HRK 780 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

17. Other assets

	Group		Bank	
	30 June 2020 HRK '000	31 December 2019 HRK '000	30 June 2020 HRK '000	31 December 2019 HRK '000
Fees receivable	27,892	27,855	27,892	27,855
Other receivables	13,125	13,922	13,125	13,922
Prepaid expenses	2,381	2,537	2,228	2,397
Accrued income	17,103	9,257	17,103	9,257
Premium receivables	4,444	4,308	-	-
Receivables for reinsurance commissions	651	1,061	-	-
Receivables for risk assessment fees	236	299	-	-
Deferred tax liabilities	324	-	-	-
Leased assets	3,922	5,061	3,841	4,854
Other assets	2,680	1,085	2,622	1,073
	72,758	65,385	66,811	59,358
Loss allowances	(36,164)	(35,570)	(36,039)	(35,436)
	36,594	29,815	30,772	23,922

Lease assets are recognized in accordance with the application of the IFRS 16 and depreciation during the year stood at HRK 1,065 thousand for the Group and HRK 1,013 thousand for the Bank.

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

30 June 2020	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	8,491	36	37,774	47	46,348	3,160	36	37,774	47	41,017
Loss allowances	(151)	(5)	(36,000)	(8)	(36,164)	(26)	(5)	(36,000)	(8)	(36,039)
Balance as 30 June 2020	8,340	31	1,774	39	10,184	3,134	31	1,774	39	4,978

31 December 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	10,290	73	37,038	44	47,445	4,622	73	37,038	44	41,777
Loss allowances	(164)	(18)	(35,382)	(6)	(35,570)	(30)	(18)	(35,382)	(6)	(35,436)
Balance as of 31 December 2019	10,126	55	1,656	38	11,875	4,592	55	1,656	38	6,341

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (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	
	30 June 2020 HRK '000	31 December 2019 HRK '000	30 June 2020 HRK '000	31 December 2019 HRK '000
Fees receivable	27,892	27,855	27,892	27,855
Other receivables	13,125	13,922	13,125	13,922
Premium receivables	4,444	4,308	-	-
Receivables for reinsurance	651	1,061	-	-
Receivables for risk assessment fees	236	299	-	-
	<u>46,348</u>	<u>47,445</u>	<u>41,017</u>	<u>41,777</u>
Loss allowance	<u>(36,164)</u>	<u>(35,570)</u>	<u>(36,039)</u>	<u>(35,436)</u>
Subtotal – credit risk	10,184	11,875	4,978	6,341

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

	Group		Bank	
	Jan 1 - Jun 30, 2020 HRK 000	Jan 1 - Dec 31, 2019 HRK 000	Jan 1 - Jun 30, 2020 HRK 000	Jan 1 - Dec 31, 2019 HRK 000
Balance as of 1 January	35,570	34,118	35,436	33,883
Net (decrease)/increase of loss allowances on other assets	<u>550</u>	<u>1,561</u>	<u>590</u>	<u>1,584</u>
<i>Total recognised through Income statement (Note 8)</i>	<u>550</u>	<u>1,561</u>	<u>590</u>	<u>1,584</u>
Write-offs	-	(114)	-	(38)
Acquisition of immovable property	(6)	-	(6)	-
Net foreign exchange gain/loss on loss allowances	19	7	19	7
Other adjustments	<u>31</u>	<u>(2)</u>	<u>-</u>	<u>-</u>
Balance at the end of the reporting period	36,164	35,570	36,039	35,436

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

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

18. Deposits from customers

	30 June 2020 HRK '000	Group and Bank 31 December 2019 HRK '000
Bank deposits	959	1,320
Foreign currency regular accounts of companies	6	6
Foreign currency account of the Ministry of Finance of the Republic of Croatia	15,361	12,874
Foreign currency special purpose accounts of the companies	19,666	22,189
Foreign currency special accounts of foreign financial institutions	6,341	6,244
State institutions' deposits	283,566	121,958
Other deposits	44,651	12,178
	370,550	176,769

The foreign currency account of the Ministry of Finance of the Republic of Croatia relates to the Export Insurance Guarantee Fund comprising of reinsurance premiums paid for export insurance operations of HRK 9,324 thousand (31 December 2019: HRK 6,889 thousand), grant funds provided by the GEF aimed at the Programme of issuing bank guarantees for energy efficiency projects within the Energy Efficiency Project of HRK 6,037 thousand (31 December 2019: HRK 5,985 thousand), all managed by HBOR for and on behalf of the Republic of Croatia.

State institutions' demand deposits relate to the Bank's operations carried out for and on behalf of the Ministry of Finance, the Ministry of the Economy and Sustainable Development, the Ministry of the Sea, Transport and Infrastructure, the Ministry of Agriculture, the Ministry of Regional Development and EU Funds, the company Vodovod i kanalizacija d.o.o., Split and the Croatian Agency for SMEs, Innovations and Investments ("HAMAG-BICRO").

Foreign currency special purpose accounts of the companies relate to the inflow of funds and disposition of the advance payment funds paid to the company's account in relation to the issued guarantees of HBOR for the repayment of advance for export transactions. The funds of the advance are used exclusively for the specified purpose of implementation of an export contract, with the consent of HBOR.

Foreign currency special accounts of foreign financial institutions relate to the proceeds of ELENA grant, and it relates to the first tranche of 40% of ELENA grant amount upon signing of the Finance Contract in the amount of EUR 839 thousand.

HBOR does not pay interest on the above deposits.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

19. Borrowings

	Group and Bank	
	30 June 2020	31 December 2019
	HRK '000	HRK '000
Balance as of 1 January	14,385,635	14,863,426
New borrowings	3,042,715	3,036,226
Repayments	(1,503,478)	(3,581,195)
Net foreign exchange gain/loss	205,761	67,178
	<u>16,130,633</u>	<u>14,385,635</u>
Accrued interest	44,996	46,498
Deferred fees	(28,048)	(31,680)
	<u>16,147,581</u>	<u>14,400,453</u>

The bank is subject to financial clauses in some Contracts. On 30 June 2020 the Bank was in compliance with all required financial clauses from the Contract.

20. 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
		30 June 2020	30 June 2020	31 December 2019	31 December 2019
		HRK '000	HRK '000	HRK '000	HRK '000
Bonds EUR 150 million	6.37	-	-	1,141,506	1,114,976
Accrued interest		-	-	-	43,374
Deferred fees		-	-	-	(59)
		<u>-</u>	<u>-</u>	<u>1,141,506</u>	<u>1,158,291</u>

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

On 8 May 2020 HBOR settled the bonds due of HRK 1,203,211 thousand, together with interest (EUR 159,000 thousand, together with interest).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

21. Provisions for guarantees, commitments and other liabilities

	Group		Bank	
	30 June 2020 HRK '000	31 December 2019 HRK '000	30 June 2020 HRK '000	31 December 2019 HRK '000
Provisions for guarantees and commitments	91,923	57,716	91,923	57,716
Provisions for other liabilities	59,221	63,064	59,108	62,915
	151,144	120,780	151,031	120,631

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

	Group		Bank	
	Jan 1 – Jun 30, 2020	Jan 1 - Dec 31, 2019 HRK '000	Jan 1 – Jun 30, 2020	Jan 1 - Dec 31, 2019 HRK '000
Balance as of 1 January	57,716	261,283	57,716	261,283
Net increase/(release) of loss allowances on guarantees	733	(156,368)	733	(156,368)
<i>Total recognised through Income Statement (Note 8)</i>	733	(156,368)	733	(156,368)
Net increase/(release) of loss allowances on commitments	32,645	(47,722)	32,645	(47,722)
<i>Total recognised through Income Statement (Note 8)</i>	32,645	(47,722)	32,645	(47,722)
Net foreign exchange on loss allowances	829	523	829	523
Balance at the end of the reporting period - Provisions for guarantees and commitments	91,923	57,716	91,923	57,716
Balance as of 1 January	63,064	60,208	62,915	60,078
Net (release)/increase of loss allowances on other liabilities	(3,843)	2,912	(3,807)	2,893
<i>Total recognised through Income Statement (Note 8)</i>	(3,843)	2,912	(3,807)	2,893
Unrealized actuarial gains/(losses)	-	(56)	-	(56)
Balance at the end of the reporting period - Provisions for other liabilities	59,221	63,064	59,108	62,915

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

Out of the total provisions for guarantees and commitments, the amount of HRK 8,384 thousand relates to financial institutions (31 December 2019: HRK 5,413 thousand), HRK 83,499 thousand relates to domestic companies (31 December 2019: HRK 52,262 thousand), HRK 21 thousand relates to the public sector (31 December 2019: HRK 20 thousand), HRK 19 thousand relates to other (31 December 2019: HRK 21 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

22. Other liabilities

	Group		Bank	
	30 June 2020 HRK '000	31 December 2019 HRK '000	30 June 2020 HRK '000	31 December 2019 HRK '000
Deferred recognition of interest income	138,612	162,937	138,612	162,937
Liabilities in respect of subsidized interest	186,570	132,912	186,570	132,912
Accrued salaries	7,431	7,480	7,213	7,285
Liabilities to suppliers	989	4,977	924	4,879
Liabilities for prepaid receivables	2,783	4,335	2,783	4,335
Deferrable premium	3,410	3,560	-	-
Provisions for claims	5,476	5,449	-	-
Provisions for return premiums	1,032	991	-	-
Liabilities to re-insurers	2,766	3,149	-	-
Deferred tax liabilities	1,064	694	-	-
Corporate income tax-current liability	-	29	-	-
Lease liabilities	3,299	5,944	3,881	4,926
Other liabilities	4,756	7,280	1,974	5,973
	358,188	339,737	341,957	323,247

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 167,630 thousand in respect of the Programme of Preferential Financing through HBOR's Loan Programmes (31 December 2019: HRK 132,912 thousand)
- HRK 8,935 thousand in respect of the Programme Working Capital COVID-19 Measure for SMEs in tourism industry for micro, small and medium-sized entrepreneurs, Ministry of Tourism and Sports (31 December 2019: HRK 0 thousand),
- HRK 5 thousand in respect of the Programme Female Entrepreneurship – interest rate subsidy, Ministry of the Economy and Sustainable Development (31 December 2019: HRK 0 thousand),
- HRK 10,000 thousand in respect of the Programme Working Capital COVID-19 Measure for entrepreneurs in wood processing and furniture production industry, Ministry of Agriculture (31 December 2019: HRK 0 thousand).

Deferred recognition of interest income of HRK 138,612 thousand (31 December 2019: HRK 162,937 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 7,948 thousand (31 December 2019: HRK 13,158 thousand), and in respect of those already in repayment stage amounting to HRK 130,664 thousand (31 December 2019: HRK 149,779 thousand).

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

23. 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 recognized in the Statement of financial position.

Group and Bank

	30 June 2020	31 December 2019
	HRK '000	HRK '000
Guarantees issued in HRK	97,290	62,102
Guarantees issued in foreign currency	222,370	210,972
Undrawn loans	5,731,626	3,995,159
Open letters of credit	1,214	11,693
EIF – subscribed, not called up capital	48,376	47,632
EIF CROGIP Contracted Liability	263,916	259,858
EIF FRC2 Contracted Liability	11,206	12,362
Other irrevocable contingent liabilities	93	93
	<u>6,376,091</u>	<u>4,599,871</u>
Provisions for guarantees and commitments	(91,923)	(57,716)
	<u>6,284,168</u>	<u>4,542,155</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:

30 June 2020	Group and Bank					
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	POCI HRK 000	Without stage HRK 000	Total HRK 000
Gross amount	5,390,836	192,700	240,658	227,185	1,214	6,052,593
Loss allowances	(12,723)	(11,083)	(63,573)	(4,544)	-	(91,923)
Balance as of 30 June 2020	<u>5,378,113</u>	<u>181,617</u>	<u>177,085</u>	<u>222,641</u>	<u>1,214</u>	<u>5,960,670</u>

31 December 2019	Group and Bank					
	Stage 1 HRK 000	Stage 2 HRK 000	Stage 3 HRK 000	POCI HRK 000	Without stage HRK 000	Total HRK 000
Gross amount	3,567,744	393,223	179,200	128,159	11,693	4,280,019
Loss allowances	(24,946)	(14,289)	(15,918)	(2,563)	-	(57,716)
Balance as of 31 December 2019	<u>3,542,798</u>	<u>378,934</u>	<u>163,282</u>	<u>125,596</u>	<u>11,693</u>	<u>4,222,303</u>

Without Stage position relates to Opened letters of credit covered by deposits.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

23. 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.

Bank guarantees are, to the extent of 48%, 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 above contingent liability was reduced due to the completion of bankruptcy proceedings during which recourse payment was not collected.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

24. 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 30 June 2020 and 31 December 2019, and income and expense for the period 1 January to 30 June 2020 and for the period 1 January to 30 June 2019 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
	30 June	30 June	31 December	31 December
	2020	2020	2019	2019
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	2,831,931	311,534	3,575,330	203,649
Government funds, executive authorities and agencies	2,340,142	170,081	1,351,888	62,057
State-owned companies	965,234	13	1,154,176	27
Associates	7	-	7	-
Key management personnel	266	1,410	3,802	1,667
Total	6,137,580	483,038	6,085,203	267,400

Group	Income	Expense	Income	Expense
	Jan 1 – Jun 30	Jan 1 – Jun 30	Jan 1 – Jun 30	Jan 1 – Jun 30
	2020	2020	2019	2019
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	27,712	238	31,709	518
Government funds, executive authorities and agencies	46,221	238	17,994	164
State-owned companies	18,540	2,842	39,181	5,281
Associates	-	-	1	-
Key management personnel	57	4,048	144	4,440
Total	92,530	7,366	89,029	10,403

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

24. Related-party transactions (continued)

a) Related-party transactions (continued)

Bank	Assets	Liabilities	Assets	Liabilities
	30 June 2020	30 June 2020	31 December 2019	31 December 2019
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	2,831,930	311,534	3,575,330	203,649
Government funds, executive authorities and agencies	2,302,345	170,058	1,312,254	62,004
State-owned companies	965,229	10	1,154,165	23
Subsidiary companies	36,124	-	36,124	-
Associates	7	-	7	-
Key management personnel	266	1,301	3,726	1,562
Total	6,135,901	482,903	6,081,606	267,238

Bank	Income	Expense	Income	Expense
	Jan 1 – Jun 30 2020	Jan 1 – Jun 30 2020	Jan 1 – Jun 30 2019	Jan 1 – Jun 30 2019
	HRK '000	HRK '000	HRK '000	HRK '000
Owner	27,713	238	31,709	518
Government funds, executive authorities and agencies	45,641	229	17,284	8
State-owned companies	18,540	2,817	39,181	5,246
Subsidiary companies	-	-	-	-
Associates	-	-	1	-
Key management personnel	56	3,315	141	3,745
Total	91,950	6,599	88,316	9,517

Assets include loans to other customers, debt instruments at amortized 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 Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

24. Related-party transactions (continued)

b) Collateral received

	Group		Bank	
	30 June 2020 HRK '000	31 December 2019 HRK '000	30 June 2020 HRK '000	31 December 2019 HRK '000
The Republic of Croatia	4,679,652	3,445,178	4,677,362	3,444,955
State agencies	378,015	399,285	378,015	399,285
Total	5,057,667	3,844,463	5,055,377	3,844,240

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

HBOR issues reinsurance policies for and on behalf of the Republic of Croatia, i.e. covers a proportional part (quota reinsurance) of political and commercial risks of export loans and receivables arising from export of goods and services. The reinsurer covers all non-marketable (non-market) risks underwritten by the Insurer or Hrvatsko kreditno osiguranje d.d. in the percentage ranging from 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 3,967 thousand (1 January to 30 June 2019: HRK 4,328 thousand), and for the Bank amounted to HRK 3,275 thousand (1 January to 30 June 2019: HRK 3,686 thousand).

Remuneration for the work of the members of the Supervisory Board for the Group amounted to HRK 81 thousand (1 January to 30 June 2019: HRK 112 thousand) and for the Bank amounted to HRK 40 thousand (1 January to 30 June 2019: HRK 59 thousand) and it relates to the members of supervisory boards at associates and subsidiaries who were appointed by HBOR.

Notes to the Financial Statements which include significant accounting policies
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for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. 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 and appropriate internal documents, a comprehensive and complete risk management system is provided.

The most significant risks the Group is exposed in its day-to-day business 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, controls 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.

25.1. 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 organizational 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 and early warning signals, monitors and controls limit utilization, 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 Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.1. 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. Procedures for liquidity crisis indication or occurrence are determined by the Ordinance on Liquidity Risk Management.

Because of the need to timely react to the challenges posed by the coronavirus crisis, HBOR has provided sufficient liquidity funds to provide support to the economy in the form of funding sources for loans earmarked for this purpose. Operations have been ensured within the established liquidity reserve limit in the conditions of a significant, and in the following period expected, reduction of collection of granted loans as a consequence of moratoriums. Timely provision of funds in the conditions of non-collection of granted loans has been considered through the scenarios of liquidity projections made under the assumptions of different percentages of non-collection and different durations of moratoriums. These scenarios have been the basis for HBOR's decision-making on how to proceed with respect to moratoriums.

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 is used for presenting the sensitivity of the Group to the changes in interest rates under regular and stress conditions. Detailed breakdown of interest rates under regular operating conditions and under stress are prepared as well. 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 early warning signals as well as 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 calculates, for the measurement/assessment of currency risk, the risk value 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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.1. Overview of the most important risks (continued)

Operational risk (continued)

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 reporting system was established as well as the manners of establishing, managing and monitoring the exposure to operational risk. The management system covers the operational risk at business changes, new products included, and operational risk at the outsourcing of activities.

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 utilization. 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.

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.

25.2. 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 Ordinance 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,

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.2. Overview of the most important risks (continued)

Risk management committees (continued)

- **Credit Risk Evaluation and Measurement Committee** – manages credit risk within the framework set through accepted Loan Policies, Credit Risk Management Ordinance, methodologies 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 a functionally and organizationally separate and independent organizational unit for the control of business risks, which is directly responsible to the Management Board. This organizational 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.

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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. 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.

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 loan 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 Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

For the purpose of mitigating the negative consequences of the coronavirus pandemic, the Bank has, in order to preserve the level of economic activity and the liquidity of economic entities and, most importantly, in order to preserve jobs, enabled the rescheduling of obligations and has offered a moratorium from 1 April 2020 to 30 June 2020 to all clients for unpaid liabilities due from 1 March 2020 to 30 June 2020. As the negative impact of the coronavirus pandemic on the economy has prolonged, the Bank has introduced an additional possibility of a moratorium on the liabilities maturing from 1 July 2020 to 30 September 2020 for all clients, a moratorium on the liabilities maturing from 1 July 2020 to 31 December 2020 for the clients who can obtain evidence of coronavirus pandemic impact on operations (COVID score, etc.), and a moratorium on the liabilities maturing from 1 July 2020 to 30 June 2021 for all clients active in the tourism industry.

Besides the rescheduling of and the moratorium on liabilities, the Bank has, aiming to preserve the level of economic activity and liquidity, implemented new loans for the liquidity of:

- small and medium-sized enterprises through framework loans to commercial banks,
- large enterprises through loans under risk-sharing models, and
- particularly affected clients operating in tourism as strategic industry through direct lending.

In cooperation with the Ministry of Tourism and Sports, the Bank has offered direct loans for financing liquidity needs of entrepreneurs in tourism at favourable terms and conditions by providing access to the funding from the fund for subsidising interest rates for entrepreneurs in tourism. As a consequence of approving a large number of loans in a relatively short period of time, some activities under the existing manners and procedures of loan application processing provided for in the Credit Risk Management Ordinance have been reduced with an objective of increasing the flow and speed of the loan approval process.

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.

Adverse effects of the coronavirus pandemic (COVID-19)

The coronavirus pandemic (COVID-19) has affected and is expected to have a negative effect on the world economy and business activities and conditions in almost all countries in the world, including Croatia. Among other challenges, the Republic of Croatia records an increase in the unemployment rate and a decline in production, while public debt has increased significantly thanks to state aid. In addition, there is an increase in the uncertainties related to collection of receivables from both individuals and companies, especially those in the affected sectors, unpredictability in financial markets, exchange rate volatility and decline in worth of assets and investments, all of which have negatively affected the Bank's performance in the first six months of 2020 and is expected to continue in the future.

The impact of the COVID-19 pandemic began to become apparent at the end of the first quarter of 2020 and had a negative impact on the Bank's results for the period up to 30 June 2020. The main accumulated impacts were:

- i) an increase in the cost of risks associated with credit activities, mainly due to deterioration in macroeconomic environment, which had a negative impact on the Bank and the expected credit loss in the amount of HRK 77 million;
- (ii) lower fair value of financial assets at fair value through other comprehensive income in the amount of HRK 517 thousand.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

Adverse effects of the coronavirus pandemic (COVID-19)(continued)

The impact of the COVID-19 pandemic on the Bank's operations, financial pos and results of operations, which is expected to be significant, will depend on future and uncertain events and the intensity and consequences arising from the pandemic.

25.3.1. 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.

25.3.2. Impairment assessment

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 Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.2. Impairment assessment (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. 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 value as well as expected period of collection through collateral.

Almost all accounting and prudential authorities have coordinately issued recommendations or measures in the context of the COVID-19 crisis to assess expected losses under IFRS 9, aiming to reduce the impact on measuring expected credit losses, given the difficulties in making reliable macroeconomic forecasts and with the assumption that it is a temporary economic shock.

In particular, moratorium on repayment of principal and interest are not automatically considered as an indicator of a significant increase in credit risk, as was the case before the crisis. Instead, the Bank analyzes whether the moratorium is the result of a temporary or permanent difficulty in repayment. In the case of the Bank, most clients that requested a moratorium and were classified as Level 1 or Level 2 clients before the COVID 19 crisis, retained the same classification.

25.3.2.1. 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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.2. Impairment assessment (continued)

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

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

- recognized 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.

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.

The bank did not classify clients who requested a moratorium in 2020 as cured even though they met the above conditions.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.2. Impairment assessment (continued)

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

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.

25.3.2.2. 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 relevant period are collected.

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

- 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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.2. Impairment assessment (continued)

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

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.

25.3.2.3. 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).

Notes to the Financial Statements which include significant accounting policies
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for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.2. Impairment assessment (continued)

25.3.2.4. 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.

25.3.2.5. 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.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.2. Impairment assessment (continued)

25.3.2.5. Significant increase in credit risk (continued)

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.

25.3.2.6. 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.

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 recognizing 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.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.3. 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 one of them (employment rate), correlations on total PDs have been established for all homogenous groups.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

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

In order for the expected credit losses to include the expected increase in client credit risk resulting from the COVID - 19 crisis, the probability of default rate (hereinafter: PD) under the pessimistic scenario has been increased compared to the PD base rate to include the expected default percentage with the scenario probabilities not having been changed. The PD base rate is the historical rate calculated on the basis of data on HBOR's loan portfolio in the period 2012-2019. PD has been stress-tested for homogeneous groups of direct borrowers.

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.

25.3.4. 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%.

25.3.5. 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.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.5. Overview of modified and restructured loans (continued)

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.

25.3.6. 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 30 June 2020, the highest credit exposure of the Group to one debtor equaled HRK 2,848,750 thousand and of the Bank HRK 2,833,870 thousand (31 December 2019: HRK 2,578,585 thousand for the Group and HRK 2,575,661 thousand 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.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.7. 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

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, HBOR entered collaterals covering outstanding placements in its business records if agency businesses with commercial banks were terminated (e.g. because the banks sold their exposures etc.) or placements 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.
- As part of the measures aimed at supporting the economy in the conditions of the coronavirus pandemic, the possibility has been introduced to grant new liquidity loans to entrepreneurs that have been strongly affected by the crisis caused by the coronavirus pandemic. Due to the expected short deadline for the processing of a large number of loan applications, the existing loan approval procedure set forth in the Credit Risk Management Ordinance has been accelerated and shortened for this purpose.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

25.3.8. Collaterals and other credit quality (creditworthiness) improvement

Collateral for the Bank's placements are:

1. obligatory (bills of exchange and promissory notes),
2. 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
3. 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 amount 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

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.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

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

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.

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.

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.

For liquidity loans directly approved to entrepreneurs in the tourism industry, that have been strongly affected by the crisis caused by the coronavirus pandemic, the collateral coverage of at least 50% of the loan has been made acceptable. The same coverage is provided also to entrepreneurs in other industries to whom the so-called COVID working capital loans are financed under risk-sharing models.

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

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

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,
- for liquidity loans to entrepreneurs that have been strongly affected by the crisis caused by the coronavirus pandemic, the same instruments taken by the bank have been accepted as collateral provided that the collateral covers at least 50% of the loan.

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 Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

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

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	
	30 June	31	30 June	31	
	2020	December	2020	December	
	HRK '000	2019	HRK '000	2019	HRK '000
Assets					
Cash on hand and current accounts with banks	2,490,813	884,402	2,475,957	881,482	
Deposits with other banks	131,894	553,470	131,894	553,470	
Loans to financial institutions	9,107,681	9,447,706	9,107,681	9,447,706	
Loans to other customers	12,973,711	13,699,634	12,973,711	13,699,634	
Financial assets at fair value through profit or loss	2,064	2,234	2,064	2,234	
Financial assets at fair value through other comprehensive income	2,300,688	1,552,565	2,261,944	1,512,396	
Debt instruments at amortized cost	-	457	-	-	
Other assets	10,184	11,875	4,978	6,341	
Total	27,017,035	26,152,343	26,958,229	26,103,263	
Guarantees and commitments					
Guarantees issued in HRK	96,317	61,481	96,317	61,481	
Issued guarantees in foreign currency	205,672	194,737	205,672	194,737	
Open letters of credit in foreign currency	1,214	11,693	1,214	11,693	
Undrawn loans	5,657,374	3,954,299	5,657,374	3,954,299	
Other irrevocable contingent liabilities	93	93	93	93	
Total	5,960,670	4,222,303	5,960,670	4,222,303	
Total credit risk exposure	32,977,705	30,374,646	32,918,899	30,325,566	

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. 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 HRK '000	EU countries HRK '000	Other countries HRK '000	Total HRK '000
30 June 2020				
Assets				
Cash on hand and current accounts with banks	1,767,087	704,027	19,699	2,490,813
Deposits with other banks	131,516	378	-	131,894
Loans to financial institutions	9,107,681	-	-	9,107,681
Loans to other customers	12,187,065	-	786,646	12,973,711
Financial assets at fair value through profit or loss	2,064	-	-	2,064
Financial assets at fair value through other comprehensive income	2,298,384	2,304	-	2,300,688
Debt instruments at amortized cost	-	-	-	-
Other assets	6,434	3,032	718	10,184
Total	25,500,231	709,741	807,063	27,017,035
Guarantees and commitments				
Guarantees issued in HRK	96,317	-	-	96,317
Issued guarantees in foreign currency	205,672	-	-	205,672
Open letters of credit in foreign currency	1,214	-	-	1,214
Undrawn loans	5,633,262	-	24,112	5,657,374
Other irrevocable contingent liabilities	93	-	-	93
Total	5,936,558	-	24,112	5,960,670
Total credit risk exposure	31,436,789	709,741	831,175	32,977,705

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. 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 (continued):

Group	Republic of Croatia HRK '000	EU countries HRK '000	Other countries HRK '000	Total HRK '000
31 December 2019				
Assets				
Cash on hand and current accounts with banks	236,641	633,321	14,440	884,402
Deposits with other banks	181,235	372,235	-	553,470
Loans to financial institutions	9,447,706	-	-	9,447,706
Loans to other customers	13,055,519	-	644,115	13,699,634
Financial assets at fair value through profit or loss	2,234	-	-	2,234
Financial assets at fair value through other comprehensive income	1,550,343	2,222	-	1,552,565
Debt instruments at amortized cost	457	-	-	457
Other assets	7,443	3,634	798	11,875
Total	24,481,578	1,011,412	659,353	26,152,343
Guarantees and commitments				
Guarantees issued in HRK	61,481	-	-	61,481
Issued guarantees in foreign currency	194,737	-	-	194,737
Open letters of credit in foreign currency	11,693	-	-	11,693
Undrawn loans	3,775,277	-	179,022	3,954,299
Other irrevocable contingent liabilities	93	-	-	93
Total	4,043,281	-	179,022	4,222,303
Total credit risk exposure	28,524,859	1,011,412	838,375	30,374,646

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. 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 (continued):

Bank	Republic of Croatia	EU countries	Other countries	Total
30 June 2020	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	1,752,231	704,027	19,699	2,475,957
Deposits with other banks	131,516	378	-	131,894
Loans to financial institutions	9,107,681	-	-	9,107,681
Loans to other customers	12,187,065	-	786,646	12,973,711
Financial assets at fair value through profit or loss	2,064	-	-	2,064
Financial assets at fair value through other comprehensive income	2,259,640	2,304	-	2,261,944
Other assets	4,961	-	17	4,978
Total	25,445,158	706,709	806,362	26,958,229
Guarantees and commitments				
Guarantees issued in HRK	96,317	-	-	96,317
Issued guarantees in foreign currency	205,672	-	-	205,672
Open letters of credit in foreign currency	1,214	-	-	1,214
Undrawn loans	5,633,262	-	24,112	5,657,374
Other irrevocable contingent liabilities	93	-	-	93
Total	5,936,558	-	24,112	5,960,670
Total credit risk exposure	31,381,716	706,709	830,474	32,918,899

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. 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 (continued):

Bank	Republic of Croatia	EU	Other	Total
31 December 2019	HRK '000	countries HRK '000	countries HRK '000	HRK '000
Assets				
Cash on hand and current accounts with banks	233,721	633,321	14,440	881,482
Deposits with other banks	181,235	372,235	-	553,470
Loans to financial institutions	9,447,706	-	-	9,447,706
Loans to other customers	13,055,519	-	644,115	13,699,634
Financial assets at fair value through profit or loss	2,234	-	-	2,234
Financial assets at fair value through other comprehensive income	1,510,174	2,222	-	1,512,396
Other assets	6,234	24	83	6,341
Total	24,436,823	1,007,802	658,638	26,103,263
Guarantees and commitments				
Guarantees issued in HRK	61,481	-	-	61,481
Issued guarantees in foreign currency	194,737	-	-	194,737
Open letters of credit in foreign currency	11,693	-	-	11,693
Undrawn loans	3,775,277	-	179,022	3,954,299
Other irrevocable contingent liabilities	93	-	-	93
Total	4,043,281	-	179,022	4,222,303
Total credit risk exposure	28,480,104	1,007,802	837,660	30,325,566

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. 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
	30 June	30 June	31 December	31 December
	2020	2020	2019	2019
	HRK '000	HRK '000	HRK '000	HRK '000
Financial intermediation and insurance	15,200,528	-	13,082,662	-
Water and electric supply and other infrastructure	1,894,120	1,100,175	1,859,000	1,571,256
Tourism	3,395,045	498,637	3,318,197	554,485
Transport, warehousing and connections	2,251,710	630,184	1,958,455	764,034
Shipbuilding	1,408,934	10,925	1,227,960	12,190
Agriculture and fishery	462,647	129,308	478,368	167,299
Food industry	1,010,621	125,084	864,720	500,569
Construction industry	1,982,175	179,799	1,217,933	113,301
Other industry	385,889	111,431	370,868	92,440
Public administration	2,289,410	2,288,821	3,040,733	3,040,152
Education	40,405	37,897	40,702	37,768
Manufacture of basic metals and fabricated metal products, except machinery and equipment	181,319	16,402	182,417	10,727
Manufacture of chemicals and chemical products	66,501	19,665	70,214	54,088
Manufacture of other non-metallic mineral products	165,672	44,041	175,818	62,144
Pharmaceutical industry	363,336	1,178	392,460	1,129
Other	1,879,393	242,167	2,094,139	329,475
Total credit risk exposure	32,977,705	5,435,714	30,374,646	7,311,057

Notes to the Financial Statements which include significant accounting policies and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. 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
	30 June 2020 HRK '000	30 June 2020 HRK '000	31 December 2019 HRK '000	31 December 2019 HRK '000
Financial intermediation and insurance	15,181,941	-	13,075,404	-
Water and electric supply and other infrastructure	1,894,120	1,100,175	1,858,999	1,571,255
Tourism	3,395,039	498,632	3,318,194	554,481
Transport, warehousing and connections	2,251,655	630,130	1,958,417	763,997
Shipbuilding	1,408,934	10,925	1,227,960	12,190
Agriculture and fishery	462,589	129,250	478,368	167,299
Food industry	1,010,484	124,947	864,559	500,409
Construction industry	1,981,921	179,545	1,217,783	113,151
Other industry	385,512	111,054	370,867	92,440
Public administration	2,251,643	2,251,054	3,000,995	3,000,414
Education	40,405	37,897	40,702	37,768
Manufacture of basic metals and fabricated metal products, except machinery and equipment	181,224	16,307	182,351	10,661
Manufacture of chemicals and chemical products	66,487	19,651	70,192	54,066
Manufacture of other non-metallic mineral products	165,672	44,041	175,818	62,144
Pharmaceutical industry	362,157	-	391,331	-
Other	1,879,116	241,889	2,093,626	328,962
Total credit risk exposure	32,918,899	5,395,497	30,325,566	7,269,237

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 Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

The fair value of collateral for the Group as of 30 June 2020 amounted to HRK 27,541,991 thousand (31 December 2019: HRK 23,063,589 thousand) and for the Bank HRK 27,523,402 thousand (31 December 2019: HRK 23,056,329 thousand).

Net highest exposure as at 30 June 2020 for the Group amounted to HRK 5,435,714 thousand (31 December 2019: HRK 7,311,057 thousand) and for the Bank HRK 5,395,497 thousand (31 December 2019: HRK 7,269,237 thousand).

In the total net highest exposure after the effect of mitigation through collateral received as of 30 June 2020, the credit risk of HRK 3,793,557 thousand for the Group (31 December 2019: HRK 4,529,750 thousand) and HRK 3,755,790 thousand for the Bank (31 December 2019: HRK 4,490,125 thousand) is not covered with ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia for the Group and the Bank of HRK 571,442 thousand (31 December 2019: HRK 2,068,112 thousand), from local (regional) authorities of HRK 719,858 thousand (31 December 2019: HRK 708,453 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 205,675 thousand (31 December 2019: HRK 204,175 thousand), government funds of HRK 102 thousand (31 December 2019: HRK 86 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 2,296,480 thousand for the Group and HRK 2,258,713 thousand for the Bank (31 December 2019: HRK 1,548,924 thousand for the Group and HRK 1,509,299 thousand for the Bank).

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 Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. 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
30 June 2020												
Assets												
Cash on hand and current accounts with banks	2,490,813	-	-	-	-	2,490,813	-	-	-	-	-	-
Deposits with other banks	131,894	-	-	-	-	131,894	-	-	-	-	-	-
Loans to financial institutions	9,032,494	64,512	10,675	-	-	9,107,681	-	-	-	-	-	-
Loans to other customers	9,197,577	1,128,323	1,509,133	1,138,678	-	12,973,711	2,277,899	113,786	312,532	39,882	-	2,744,099
Financial assets at fair value through profit or loss	-	-	-	-	2,064	2,064	-	-	-	-	2,064	2,064
Financial assets at fair value through other comprehensive income	2,298,384	-	2,304	-	-	2,300,688	2,298,384	-	2,304	-	-	2,300,688
Debt instruments at amortized cost	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	8,340	31	1,774	39	-	10,184	2,456	30	1,709	38	-	4,233
Total	23,159,502	1,192,866	1,523,886	1,138,717	2,064	27,017,035	4,578,739	113,816	316,545	39,920	2,064	5,051,084
Guarantees and commitments												
Guarantees issued in HRK	77,322	8,623	10,372	-	-	96,317	48,303	8,024	10,372	-	-	66,699
Issued guarantees in foreign currency	8,712	38,019	158,941	-	-	205,672	296	4,878	51,494	-	-	56,668
Open letters of credit in foreign currency	-	-	-	-	1,214	1,214	-	-	-	-	-	-
Undrawn loans	5,291,986	134,975	7,772	222,641	-	5,657,374	226,285	31,737	3,148	-	-	261,170
Other irrevocable contingent liabilities	93	-	-	-	-	93	93	-	-	-	-	93
Total	5,378,113	181,617	177,085	222,641	1,214	5,960,670	274,977	44,639	65,014	-	-	384,630
Total credit risk exposure	28,537,615	1,374,483	1,700,971	1,361,358	3,278	32,977,705	4,853,716	158,455	381,559	39,920	2,064	5,435,714

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. 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 2019												
Assets												
Cash on hand and current accounts with banks	884,402	-	-	-	-	884,402	-	-	-	-	-	-
Deposits with other banks	553,470	-	-	-	-	553,470	-	-	-	-	-	-
Loans to financial institutions	9,363,335	73,076	11,295	-	-	9,447,706	-	-	-	-	-	-
Loans to other customers	10,084,080	1,136,882	1,414,424	1,064,248	-	13,699,634	4,065,803	164,484	194,117	597,289	-	5,021,693
Financial assets at fair value through profit or loss	-	-	-	-	2,234	2,234	-	-	-	-	2,234	2,234
Financial assets at fair value through other comprehensive income	1,549,468	875	2,222	-	-	1,552,565	1,549,468	875	2,222	-	-	1,552,565
Debt instruments at amortized cost	457	-	-	-	-	457	457	-	-	-	-	457
Other assets	10,126	55	1,656	38	-	11,875	1,195	50	1,345	-	-	2,590
Total	22,445,338	1,210,888	1,429,597	1,064,286	2,234	26,152,343	5,616,923	165,409	197,684	597,289	2,234	6,579,539
Guarantees and commitments												
Guarantees issued in HRK	49,769	-	11,712	-	-	61,481	9,003	-	6,844	-	-	15,847
Issued guarantees in foreign currency	11,072	32,095	151,570	-	-	194,737	1,764	-	59,816	-	-	61,580
Open letters of credit in foreign currency	-	-	-	-	11,693	11,693	-	-	-	-	-	-
Undrawn loans	3,481,864	346,839	-	125,596	-	3,954,299	615,977	38,021	-	-	-	653,998
Other irrevocable contingent liabilities	93	-	-	-	-	93	93	-	-	-	-	93
Total	3,542,798	378,934	163,282	125,596	11,693	4,222,303	626,837	38,021	66,660	-	-	731,518
Total credit risk exposure	25,988,136	1,589,822	1,592,879	1,189,882	13,927	30,374,646	6,243,760	203,430	264,344	597,289	2,234	7,311,057

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. 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:

Bank							Net exposure of portfolio after the effect of mitigation through collateral received Stage 1	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3	Net exposure of portfolio after the effect of mitigation through collateral received POCI	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
	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 total portfolio	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
30 June 2020												
Assets												
Cash on hand and current accounts with banks	2,475,957	-	-	-	-	2,475,957	-	-	-	-	-	-
Deposits with other banks	131,894	-	-	-	-	131,894	-	-	-	-	-	-
Loans to financial institutions	9,032,494	64,512	10,675	-	-	9,107,681	-	-	-	-	-	-
Loans to other customers	9,197,577	1,128,323	1,509,133	1,138,678	-	12,973,711	2,277,899	113,786	312,532	39,882	-	2,744,099
Financial assets at fair value through profit or loss	-	-	-	-	2,064	2,064	-	-	-	-	2,064	2,064
Financial assets at fair value through other comprehensive income	2,259,640	-	2,304	-	-	2,261,944	2,259,640	-	2,304	-	-	2,261,944
Other assets	3,134	31	1,774	39	-	4,978	983	30	1,709	38	-	2,760
Total	23,100,696	1,192,866	1,523,886	1,138,717	2,064	26,958,229	4,538,522	113,816	316,545	39,920	2,064	5,010,867
Guarantees and commitments												
Guarantees issued in HRK	77,322	8,623	10,372	-	-	96,317	48,303	8,024	10,372	-	-	66,699
Issued guarantees in foreign currency	8,712	38,019	158,941	-	-	205,672	296	4,878	51,494	-	-	56,668
Open letters of credit in foreign currency	-	-	-	-	1,214	1,214	-	-	-	-	-	-
Undrawn loans	5,291,986	134,975	7,772	222,641	-	5,657,374	226,285	31,737	3,148	-	-	261,170
Other irrevocable contingent liabilities	93	-	-	-	-	93	93	-	-	-	-	93
Total	5,378,113	181,617	177,085	222,641	1,214	5,960,670	274,977	44,639	65,014	-	-	384,630
Total credit risk exposure	28,478,809	1,374,483	1,700,971	1,361,358	3,278	32,918,899	4,813,499	158,455	381,559	39,920	2,064	5,395,497

Notes to the Financial Statements which include significant accounting policies and other explanations for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. 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:

Bank							Net exposure of portfolio after the effect of mitigation through collateral received Stage 1	Net exposure of portfolio after the effect of mitigation through collateral received Stage 2	Net exposure of portfolio after the effect of mitigation through collateral received Stage 3	Net exposure of portfolio after the effect of mitigation through collateral received POCI	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
	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 total portfolio	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
31 December 2019												
Assets												
Cash on hand and current accounts with banks	881,482	-	-	-	-	881,482	-	-	-	-	-	-
Deposits with other banks	553,470	-	-	-	-	553,470	-	-	-	-	-	-
Loans to financial institutions	9,363,335	73,076	11,295	-	-	9,447,706	-	-	-	-	-	-
Loans to other customers	10,084,080	1,136,882	1,414,424	1,064,248	-	13,699,634	4,065,803	164,484	194,117	597,289	-	5,021,693
Financial assets at fair value through profit or loss	-	-	-	-	2,234	2,234	-	-	-	-	2,234	2,234
Financial assets at fair value through other comprehensive income	1,509,299	875	2,222	-	-	1,512,396	1,509,299	875	2,222	-	-	1,512,396
Other assets	4,592	55	1,656	38	-	6,341	1	50	1,345	-	-	1,396
Total	22,396,258	1,210,888	1,429,597	1,064,286	2,234	26,103,263	5,575,103	165,409	197,684	597,289	2,234	6,537,719
Guarantees and commitments												
Guarantees issued in HRK	49,769	-	11,712	-	-	61,481	9,003	-	6,844	-	-	15,847
Issued guarantees in foreign currency	11,072	32,095	151,570	-	-	194,737	1,764	-	59,816	-	-	61,580
Open letters of credit in foreign currency	-	-	-	-	11,693	11,693	-	-	-	-	-	-
Undrawn loans	3,481,864	346,839	-	125,596	-	3,954,299	615,977	38,021	-	-	-	653,998
Other irrevocable contingent liabilities	93	-	-	-	-	93	93	-	-	-	-	93
Total	3,542,798	378,934	163,282	125,596	11,693	4,222,303	626,837	38,021	66,660	-	-	731,518
Total credit risk exposure	25,939,056	1,589,822	1,592,879	1,189,882	13,927	30,325,566	6,201,940	203,430	264,344	597,289	2,234	7,269,237

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

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

As at 30 June 2020 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 1,496,557 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 571,024 thousand, local and regional authorities of HRK 719,858 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 205,675 thousand.

As at 30 June 2020 the amount of financial assets at fair value through other comprehensive income is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 2,296,480 thousand for the Group and HRK 2,258,713 thousand for the Bank.

As at 30 June 2020 other assets of HRK 427 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

As at 31 December 2019 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 2,979,445 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 2,066,817 thousand, local and regional authorities of HRK 708,453 thousand and public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 204,175 thousand.

As at 31 December 2019 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 1,548,924 thousand for the Group and HRK 1,509,299 thousand for the Bank.

As at 31 December 2019 other assets of HRK 1,288 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. 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					
30 June 2020	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2020	483	-	-	-	483
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	1,459	-	-	-	1,459
Net foreign exchange loss on loss allowances	9	-	-	-	9
Balance at 30 June 2020	1,951	-	-	-	1,951

Group					
31 December 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	-	-	-	-	-
Net release of loss allowance	(1,190)	-	-	-	(1,190)
Net foreign exchange loss on loss allowances	5	-	-	-	5
Balance at 31 December 2019	483	-	-	-	483

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances

Cash on hand and current accounts with banks (continued)

Bank					
30 June 2020	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2020	479	-	-	-	479
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	1,440	-	-	-	1,440
Net foreign exchange loss on loss allowances	9	-	-	-	9
Balance at 30 June 2020	1,928	-	-	-	1,928

Bank					
31 December 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	-	-	-	-	-
Net release of loss allowance	(1,177)	-	-	-	(1,177)
Net foreign exchange loss on loss allowances	5	-	-	-	5
Balance at 31 December 2019	479	-	-	-	479

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances

Deposits with other banks

Group and Bank

30 June 2020

	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2020	1,256	-	-	-	1,256
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(512)	-	-	-	(512)
Net foreign exchange loss on loss allowances	19	-	-	-	19
Balance at 30 June 2020	763	-	-	-	763

Group and Bank

31 December 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	-	-	-	-	-
Net release of loss allowance	(112)	-	-	-	(112)
Net foreign exchange loss on loss allowances	7	-	-	-	7
Balance at 31 December 2019	1,256	-	-	-	1,256

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances

Loans to financial institutions

Group and Bank

30 June 2020

	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2020	37,098	10,543	11,057	-	58,698
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(3,946)	(1,361)	(245)	-	(5,552)
Unwind – changes due to the lapse of time	-	-	15	-	15
Loss allowances transferred from/to loans to other customers	-	(36)	-	-	(36)
Net foreign exchange loss on loss allowances	201	120	34	-	355
Balance at 30 June 2020	33,353	9,266	10,861	-	53,480

Group and Bank

31 December 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	251	(251)	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net release of loss allowance	(41,274)	(10,177)	(7,035)	-	(58,486)
Unwind – changes due to the lapse of time	-	-	4	-	4
Loss allowances transferred from/to loans to other customers	(3)	-	-	-	(3)
Net foreign exchange loss on loss allowances	(2)	30	1	-	29
Balance at 31 December 2019	37,098	10,543	11,057	-	58,698

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances

Loans to other customers

Group and Bank	Stage 1	Stage 2	Stage 3	POCI	Total
30 June 2020	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2020	302,945	627,951	2,313,514	120,664	3,365,074
Transfer to Stage 1	102,357	(92,096)	(10,261)	-	-
Transfer to Stage 2	(10,220)	16,260	(6,040)	-	-
Transfer to Stage 3	(4,651)	(70,073)	57,256	17,468	-
Net increase/(release) of loss allowance	(49,474)	81,166	(6,688)	(8,968)	16,036
Write-offs	-	-	(114)	-	(114)
Unwind – changes due to the lapse of time	(415)	(218)	11,386	10,493	21,246
Loss allowances transferred to/from loans to financial institutions	-	36	-	-	36
Acquisition of immovable property	(690)	-	(109)	-	(799)
Interest transferred from the off-balance sheet records and other	-	-	-	6,010	6,010
Net foreign exchange losses on loss allowances	4,292	6,344	11,808	264	22,708
Balance at 30 June 2020	344,144	569,370	2,370,752	145,931	3,430,197
Group and Bank	Stage 1	Stage 2	Stage 3	POCI	Total
31 December 2019	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2019	351,878	494,557		64,222	3,380,296
Transfer to Stage 1	322,355		(75,902)	-	-
Transfer to Stage 2	(55,309)	60,546	(5,237)	-	-
Transfer to Stage 3	(1,695)		42,943	86,307	-
Net increase/(release) of loss allowance		445,262		(49,977)	(33,136)
Write-offs	(197)	(10)	(26,544)	-	(26,751)
Unwind – changes due to the lapse of time	(2,913)	(64)	27,565	9,030	33,618
Loss allowances transferred to/from loans to financial institutions	3	-	-	-	3
Acquisition of immovable property	-	-	(6,475)	-	(6,475)
Collection of interest transferred from the off-balance sheet records	-	-	-	-	-
Conversion of receivables into shares	-	-	(1,812)	-	(1,812)
Write-of due to sale of receivables	-	-	(52)	-	(52)
Other	-	-	36	10,221	10,257
Net foreign exchange losses on loss allowances	1,118	1,668	5,479	861	9,126
Balance at 31 December 2019	302,945	627,951	2,313,514	120,664	3,365,074

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances

Financial assets at fair value through other comprehensive income

Group					
30 June 2020	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2020	1,422	426	1,507	-	3,355
Transfer to Stage 1	426	(426)	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	348	-	71	-	419
Net foreign exchange gain on loss allowances	8	-	33	-	41
Balance at 30 June 2020	2,204	-	1,611	-	3,815

Group					
31 December 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	47	-	(47)	-	-
Transfer to Stage 2	(416)	416	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase/(release) of loss allowance	(3,217)	1	(185)	-	(3,401)
Net foreign exchange gain on loss allowances	1	9	-	-	10
Balance at 31 December 2019	1,422	426	1,507	-	3,355

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances

Financial assets at fair value through other comprehensive income

Bank					
30 June 2020	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2020	1,350	426	1,507	-	3,283
Transfer to Stage 1	426	(426)	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase of loss allowance	349	-	71	-	420
Net foreign exchange gain on loss allowances	8	-	33	-	41
Balance at 30 June 2020	2,133	-	1,611	-	3,744

Bank					
31 December 2019	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2019	4,720	-	1,739	-	6,459
Transfer to Stage 1	47	-	(47)	-	-
Transfer to Stage 2	(416)	416	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net increase/(release) of loss allowance	(3,002)	1	(185)	-	(3,186)
Net foreign exchange gain on loss allowances	1	9	-	-	10
Balance at 31 December 2019	1,350	426	1,507	-	3,283

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances

Other assets

Group					
30 June 2020	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2020	164	18	35,382	6	35,570
Transfer to Stage 1	4	-	(4)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	(1)	1	-	-
Net increase/(release) of loss	(48)	(12)	608	2	550
Foreclosed assets	-	-	(6)	-	(6)
Other adjustments	31	-	-	-	31
Net foreign exchange gain on loss allowances	-	-	19	-	19
Balance at 30 June 2020	151	5	36,000	8	36,164

Group					
31 December 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	2	-	(2)	-	-
Transfer to Stage 2	(1)	1	-	-	-
Transfer to Stage 3	-	(6)	(36)	42	-
Net increase/(release) of loss	(40)	23	1,614	(36)	1,561
Other adjustments	(2)	-	-	-	(2)
Write-offs	(76)	-	(38)	-	(114)
Net foreign exchange gain on loss allowances	-	-	7	-	7
Balance at 31 December 2019	164	18	35,382	6	35,570

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances

Other assets

Bank

30 June 2020

	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2020	30	18	35,382	6	35,436
Transfer to Stage 1	4	-	(4)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	(1)	1	-	-
Net increase/(release) of loss allowance	(8)	(12)	608	2	590
Foreclosed assets	-	-	(6)	-	(6)
Write-offs	-	-	-	-	-
Net foreign exchange loss on loss allowances	-	-	19	-	19
Balance at 30 June 2020	26	5	36,000	8	36,039

Bank

31 December 2019

	Stage 1	Stage 2	Stage 3	POCI	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2019	46	-	33,837	-	33,883
Transfer to Stage 1	2	-	(2)	-	-
Transfer to Stage 2	(1)	1	-	-	-
Transfer to Stage 3	-	(6)	(36)	42	-
Net increase/(release) of loss allowance	(17)	23	1,614	(36)	1,584
Write-offs	-	-	(38)	-	(38)
Net foreign exchange loss on loss allowances	-	-	7	-	7
Balance at 31 December 2019	30	18	35,382	6	35,436

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.3. Credit risk (continued)

i. Allowances

Guarantees and commitments

Group and Bank 30 June 2020	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2020	24,946	14,289	15,918	2,563	57,716
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	(3,629)	3,629	-	-
Net increase/(release) of loss allowance	(13,734)	1,240	43,916	1,956	33,378
Net foreign exchange (gain)/loss on loss allowances	1,511	(817)	110	25	829
Balance at 30 June 2020	12,723	11,083	63,573	4,544	91,923

Group and Bank 31 December 2019	Stage 1 HRK '000	Stage 2 HRK '000	Stage 3 HRK '000	POCI HRK '000	Total HRK '000
Balance at 1 January 2019	9,170	65,094	175,996	11,023	261,283
Transfer to Stage 1	14,916	(14,916)	-	-	-
Transfer to Stage 2	2	(2)	-	-	-
Transfer to Stage 3	-	-	(2,904)	2,904	-
Net increase/(release) of loss allowance	904	(36,026)	(157,600)	(11,368)	(204,090)
Net foreign exchange (gain)/loss on loss allowances	(46)	139	426	4	523
Balance at 31 December 2019	24,946	14,289	15,918	2,563	57,716

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.4. Liquidity risk

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 30 June 2020 and 31 December 2019 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 30 June 2020	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 banks	2,490,818	-	-	-	-	2,490,818
Deposits with other banks	131,516	-	-	-	378	131,894
Loans to financial institutions*	166,914	461,132	1,158,898	2,536,217	4,784,520	9,107,681
Loans to other customers	1,708,227	421,364	857,597	2,310,863	7,675,660	12,973,711
Financial assets at fair value through profit or loss	180,993	-	-	-	2,064	183,057
Financial assets at fair value through other comprehensive income	2,317,023	10,429	19	-	-	2,327,471
Property, plant and equipment and intangible assets	-	-	-	-	48,630	48,630
Foreclosed assets	-	-	2,044	20,679	883	23,606
Other assets	9,129	4,316	12,893	9,141	1,115	36,594
Total assets	7,004,620	897,241	2,031,451	4,876,900	12,513,250	27,323,462
Liabilities						
Deposits from customers	198,721	42,516	21,895	45,122	62,296	370,550
Borrowings	244,810	318,392 **	1,690,521	4,296,199	9,597,659	16,147,581
Debt securities issued	-	-	-	-	-	-
Provisions for guarantees, commitments and other liabilities	85,211	3,717	12,057	24,631	25,528	151,144
Other liabilities	201,817	10,885	30,742	62,189	52,555	358,188
Total liabilities	730,559	375,510	1,755,215	4,428,141	9,738,038	17,027,463
Liquidity gap	6,274,061	521,731	276,236	448,759	2,775,212	10,295,999
Guarantees and commitments						
Guarantees issued in HRK	97,290	-	-	-	-	97,290
Issued guarantees in foreign currency	222,370	-	-	-	-	222,370
Open letters of credit in foreign currency	1,214	-	-	-	-	1,214
Undrawn loans	5,731,626	-	-	-	-	5,731,626
EIF – subscribed, not called up capital	48,376	-	-	-	-	48,376
EIF CROGIP Contracted Liability	7,559	15,291	40,776	101,939	98,351	263,916
EIF FRC2 Contracted Liability	369	917	2,039	5,607	2,274	11,206
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	6,108,897	16,208	42,815	107,546	100,625	6,376,091

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

* *Receivables of HRK 39,264 thousand relate to reverse REPO agreements.*

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

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.4. Liquidity risk (continued)

Group 31 December 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 banks	884,407	-	-	-	-	884,407
Deposits with other banks	33,184	519,914	-	-	372	553,470
Loans to financial institutions*	152,358	336,007	1,259,613	2,638,834	5,060,894	9,447,706
Loans to other customers	1,656,921	149,889	2,059,355	2,227,319	7,606,150	13,699,634
Financial assets at fair value through profit or loss	201,599	-	-	-	2,234	203,833
Financial assets at fair value through other comprehensive income	1,567,566	11,209	35	-	-	1,578,810
Debt instruments at amortized cost	-	457	-	-	-	457
Property, plant and equipment and intangible assets	-	-	-	-	48,281	48,281
Foreclosed assets	-	5,930	2,044	13,574	2,650	24,198
Other assets	8,609	5,957	10,389	4,182	678	29,815
Total assets	4,504,644	1,029,363	3,331,436	4,883,909	12,721,259	26,470,611
Liabilities						
Deposits from customers	89,551	24,257	12,248	15,152	35,561	176,769
Borrowings	353,615	315,555**	1,604,542	4,136,517	7,990,224	14,400,453
Debt securities issued	-	43,375	1,114,916	-	-	1,158,291
Provisions for guarantees, commitments and other liabilities	58,582	3,294	11,436	22,146	25,322	120,780
Other liabilities	157,671	12,079	35,580	67,540	66,867	339,737
Total liabilities	659,419	398,560	2,778,722	4,241,355	8,117,974	16,196,030
Liquidity gap	3,845,225	630,803	552,714	642,554	4,603,285	10,274,581
Guarantees and commitments						
Guarantees issued in HRK	61,481	-	-	-	-	61,481
Issued guarantees in foreign currency	194,737	-	-	-	-	194,737
Open letters of credit in foreign currency	11,693	-	-	-	-	11,693
Undrawn loans	3,954,299	-	-	-	-	3,954,299
EIF – subscribed, not called up capital	47,632	-	-	-	-	47,632
EIF CROGIP Contracted Liability	-	800	34,000	113,000	112,058	259,858
EIF FRC2 Contracted Liability	300	300	2,000	7,400	2,362	12,362
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	4,270,235	1,100	36,000	120,400	114,420	4,542,155

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

* *Receivables of HRK 41,075 thousand relate to reverse REPO agreements.*

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

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.4. Liquidity risk (continued)

The table below provides an analysis of total assets, total liabilities and total guarantees and commitments as of 30 June 2020 and 31 December 2019 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 30 June 2020	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	2,475,962	-	-	-	-	2,475,962
Deposits with other banks	131,516	-	-	-	378	131,894
Loans to financial institutions*	166,914	461,132	1,158,898	2,536,217	4,784,520	9,107,681
Loans to other customers		421,364	857,597	2,310,863	7,675,660	12,973,711
Financial assets at fair value through profit or loss	180,993	-	-	-	2,064	183,057
Financial assets at fair value through other comprehensive income	2,278,332	10,395	-	-	-	2,288,727
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	47,498	47,498
Foreclosed assets	-	-	2,044	20,679	883	23,606
Other assets	7,456	582	12,801	9,141	792	30,772
Total assets	6,949,400	893,473	2,031,340	4,876,900	12,547,919	27,299,032
Liabilities						
Deposits from customers	198,721	42,516	21,895	45,122	62,296	370,550
Borrowings	244,810	318,392 **	1,690,521	4,296,199	9,597,659	16,147,581
Debt securities issued	-	-	-	-	-	-
Provisions for guarantees, commitments and other liabilities	85,211	3,717	11,944	24,631	25,528	151,031
Other liabilities	201,184	7,949	25,545	52,680	54,599	341,957
Total liabilities	729,926	372,574	1,749,905	4,418,632	9,740,082	17,011,119
Liquidity gap	6,219,474	520,899	281,435	458,268	2,807,837	10,287,913
Guarantees and commitments						
Guarantees issued in HRK	97,290	-	-	-	-	97,290
Issued guarantees in foreign currency	222,370	-	-	-	-	222,370
Open letters of credit in foreign currency	1,214	-	-	-	-	1,214
Undrawn loans	5,731,626	-	-	-	-	5,731,626
EIF – subscribed, not called up capital	48,376	-	-	-	-	48,376
EIF CROGIP Contracted Liability	7,559	15,291	40,776	101,939	98,351	263,916
EIF FRC2 Contracted Liability	369	917	2,039	5,607	2,274	11,206
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	6,108,897	16,208	42,815	107,546	100,625	6,376,091

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

* Receivables of HRK 39,264 thousand relate to reverse REPO agreements.

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

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.4. Liquidity risk (continued)

Bank 31 December 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	881,487	-	-	-	-	881,487
Deposits with other banks	33,184	519,914	-	-	372	553,470
Loans to financial institutions*	152,358	336,007	1,259,613	2,638,834	5,060,894	9,447,706
Loans to other customers	1,656,921	149,889	2,059,355	2,227,319	7,606,150	13,699,634
Financial assets at fair value through profit or loss	191,760	-	-	-	2,234	193,994
Financial assets at fair value through other comprehensive income	1,527,510	11,131	-	-	-	1,538,641
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	47,309	47,309
Foreclosed assets	-	5,930	2,044	13,574	2,650	24,198
Other assets	7,127	1,630	10,306	4,181	678	23,922
Total assets	4,450,347	1,024,501	3,331,318	4,883,908	12,756,411	26,446,485
Liabilities						
Deposits from customers	89,551	24,257	12,248	15,152	35,561	176,769
Borrowings	353,615	315,555**	1,604,542	4,136,517	7,990,224	14,400,453
Debt securities issued	-	43,375	1,114,916	-	-	1,158,291
Provisions for guarantees, commitments and other liabilities	58,582	3,294	11,287	22,146	25,322	120,631
Other liabilities	156,976	8,827	30,247	59,344	67,853	323,247
Total liabilities	658,724	395,308	2,773,240	4,233,159	8,118,960	16,179,391
Liquidity gap	3,791,623	629,193	558,078	650,749	4,637,451	10,267,094
Guarantees and commitments						
Guarantees issued in HRK	61,481	-	-	-	-	61,481
Issued guarantees in foreign currency	194,737	-	-	-	-	194,737
Open letters of credit in foreign currency	11,693	-	-	-	-	11,693
Undrawn loans	3,954,299	-	-	-	-	3,954,299
EIF – subscribed, not called up capital	47,632	-	-	-	-	47,632
EIF CROGIP Contracted Liability	-	800	34,000	113,000	112,058	259,858
EIF FRC2 Contracted Liability	300	300	2,000	7,400	2,362	12,362
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	4,270,235	1,100	36,000	120,400	114,420	4,542,155

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

* *Receivables of HRK 41,075 thousand relate to reverse REPO agreements.*

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

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.4. Liquidity risk (continued)

The table below indicates the remaining contractual maturity of financial liabilities, whereas the guarantees and commitments of the Group are classified in the category “up to 1 month”, owing to the possibility of a premature call to meet a liability (undiscounted amounts):

Group	Up to 1	1 - 3	3 - 12	1 - 3	Over 3	Total
30 June 2020	month	months	months	years	years	
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits from customers	198,721	42,516	21,895	45,122	62,296	370,550
Borrowings	264,692	341,720	1,858,392	4,657,919	10,229,189	17,351,912
Debt securities issued	-	-	-	-	-	-
Provisions for guarantees, commitments and other liabilities	85,211	3,717	12,057	24,631	25,528	151,144
Other liabilities	201,817	10,885	30,742	62,189	52,555	358,188
Total	750,441	398,838	1,923,086	4,789,861	10,369,568	18,231,794
Guarantees and commitments						
Guarantees issued in HRK	97,290	-	-	-	-	97,290
Issued guarantees in foreign currency	222,370	-	-	-	-	222,370
Open letters of credit in foreign currency	1,214	-	-	-	-	1,214
Undrawn loans	5,731,626	-	-	-	-	5,731,626
EIF – subscribed, not called up capital	48,376	-	-	-	-	48,376
EIF CROGIP Contracted Liability	7,559	15,291	40,776	101,939	98,351	263,916
EIF FRC2 Contracted Liability	369	917	2,039	5,607	2,274	11,206
Other irrevocable contingent	93	-	-	-	-	93
Total guarantees and commitments	6,108,897	16,208	42,815	107,546	100,625	6,376,091
Group						
31 December 2019	Up to 1	1 - 3	3 - 12	1 - 3	Over 3	Total
	month	months	months	years	years	
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits from customers	89,551	24,257	12,248	15,152	35,561	176,769
Borrowings	375,094	342,026	1,757,887	4,536,871	8,983,313	15,995,191
Debt securities issued	-	43,374	1,181,900	-	-	1,225,274
Provisions for guarantees, commitments and other liabilities	58,582	3,294	11,436	22,146	25,322	120,780
Other liabilities	157,671	12,080	35,580	67,539	66,867	339,737
Total	680,898	425,031	2,999,051	4,641,708	9,111,063	17,857,751
Guarantees and commitments						
Guarantees issued in HRK	61,481	-	-	-	-	61,481
Issued guarantees in foreign currency	194,737	-	-	-	-	194,737
Open letters of credit in foreign currency	11,693	-	-	-	-	11,693
Undrawn loans	3,954,299	-	-	-	-	3,954,299
EIF – subscribed, not called up capital	47,632	-	-	-	-	47,632
EIF CROGIP Contracted Liability	-	800	34,000	113,000	112,058	259,858
EIF FRC2 Contracted Liability	300	300	2,000	7,400	2,362	12,362
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	4,270,235	1,100	36,000	120,400	114,420	4,542,155

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.4. Liquidity risk (continued)

The table below indicates the remaining contractual maturity of financial liabilities, whereas the guarantees and commitments of the Group are classified in the category “up to 1 month”, owing to the possibility of a premature call to meet a liability (undiscounted amounts):

Bank	Up to 1	1 - 3	3 - 12	1 - 3	Over 3	Total
30 June 2020	month	months	months	years	years	
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits from customers	198,721	42,516	21,895	45,122	62,296	370,550
Borrowings	264,692	341,720	1,858,392	4,657,919	10,229,189	17,351,912
Debt securities issued	-	-	-	-	-	-
Provisions for guarantees, commitments and other liabilities	85,211	3,717	11,944	24,631	25,528	151,031
Other liabilities	201,184	7,949	25,545	52,680	54,599	341,957
Total	749,808	395,902	1,917,776	4,780,352	10,371,612	18,215,450
Guarantees and commitments						
Guarantees issued in HRK	97,290	-	-	-	-	97,290
Issued guarantees in foreign currency	222,370	-	-	-	-	222,370
Open letters of credit in foreign currency	1,214	-	-	-	-	1,214
Undrawn loans	5,731,626	-	-	-	-	5,731,626
EIF – subscribed, not called up capital	48,376	-	-	-	-	48,376
EIF CROGIP Contracted Liability	7,559	15,291	40,776	101,939	98,351	263,916
EIF FRC2 Contracted Liability	369	917	2,039	5,607	2,274	11,206
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	6,108,897	16,208	42,815	107,546	100,625	6,376,091
Bank						
31 December 2019	Up to 1	1 - 3	3 - 12	1 - 3	Over 3	Total
	month	months	months	years	years	
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits from customers	89,551	24,257	12,248	15,152	35,561	176,769
Borrowings	375,094	342,026	1,757,887	4,536,871	8,983,313	15,995,191
Debt securities issued	-	43,374	1,181,900	-	-	1,225,274
Provisions for guarantees, commitments and other liabilities	58,582	3,294	11,287	22,146	25,322	120,631
Other liabilities	156,976	8,828	30,246	59,344	67,853	323,247
Total	680,203	421,779	2,993,568	4,633,513	9,112,049	17,841,112
Guarantees and commitments						
Guarantees issued in HRK	61,481	-	-	-	-	61,481
Issued guarantees in foreign currency	194,737	-	-	-	-	194,737
Open letters of credit in foreign currency	11,693	-	-	-	-	11,693
Undrawn loans	3,954,299	-	-	-	-	3,954,299
EIF – subscribed, not called up capital	47,632	-	-	-	-	47,632
EIF CROGIP Contracted Liability	-	800	34,000	113,000	112,058	259,858
EIF FRC2 Contracted Liability	300	300	2,000	7,400	2,362	12,362
Other irrevocable contingent liabilities	93	-	-	-	-	93
Total guarantees and commitments	4,270,235	1,100	36,000	120,400	114,420	4,542,155

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk

Market risk management in the Bank implies minimizing interest rate risk and currency risk.

25.5.1. Interest rate risk

The following tables demonstrate the sensitivity of the Group to the interest rate risk as of 30 June 2020 and 31 December 2019 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter.

Assets and liabilities on which interest is not charged are placed into the non-interest bearing category. The tables below demonstrate the estimation of Group's interest rate risk exposure as of 30 June 2020 and 31 December 2019 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
30 June 2020	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	738,973	-	-	-	-	1,751,845	2,490,818	738,973
Deposits with other banks	131,516	-	-	-	-	378	131,894	131,516
Loans to financial institutions	159,181	642,241	1,130,675	2,476,022	4,691,065	8,497	9,107,681	8,904,801
Loans to other customers	1,767,770	462,648	1,064,032	2,121,475	7,358,062	199,724	12,973,711	12,096,868
Financial assets at fair value through profit or loss	-	-	-	-	2,064	180,993	183,057	2,064
Financial assets at fair value through other comprehensive income	2,289,882	-	-	-	-	37,589	2,327,471	2,289,882
Other assets	-	-	-	-	-	36,594	36,594	-
Total assets	5,087,322	1,104,889	2,194,707	4,597,497	12,051,191	2,215,620	27,251,226	24,164,104
Liabilities								
Deposits from customers	-	-	-	-	-	370,550	370,550	-
Borrowings	244,810	273,396	1,808,240	4,259,978	9,516,161	44,996	16,147,581	15,966,756
Debt securities issued	-	-	-	-	-	-	-	-
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	151,144	151,144	-
Other liabilities	-	-	-	-	-	358,188	358,188	-
Total liabilities	244,810	273,396	1,808,240	4,259,978	9,516,161	924,878	17,027,463	15,966,756
Interest rate gap	4,842,512	831,493	386,467	337,519	2,535,030	1,290,742	10,223,763	8,197,348

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.1. 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 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	650,921	-	-	-	-	233,486	884,407	650,921
Deposits with other banks	33,184	520,032	-	-	-	254	553,470	553,216
Loans to financial institutions	146,639	536,191	1,224,864	2,563,039	4,971,304	5,669	9,447,706	9,221,266
Loans to other customers	1,769,376	322,630	2,158,440	2,012,521	7,323,188	113,479	13,699,634	12,908,055
Financial assets at fair value through profit or loss	-	-	-	-	2,234	201,599	203,833	2,234
Financial assets at fair value through other comprehensive income	1,540,964	-	-	-	-	37,846	1,578,810	1,540,964
Debt instruments at amortized cost	-	448	-	-	-	9	457	448
Other assets	-	-	-	-	-	29,815	29,815	-
Total assets	4,141,084	1,379,301	3,383,304	4,575,560	12,296,726	622,157	26,398,132	24,877,104
Liabilities								
Deposits from customers	-	-	-	-	-	176,769	176,769	-
Borrowings	353,615	269,056	1,730,226	4,100,607	7,900,450	46,499	14,400,453	14,210,316
Debt securities issued	-	-	1,114,916	-	-	43,375	1,158,291	1,114,916
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	120,780	120,780	-
Other liabilities	-	-	-	-	-	339,737	339,737	-
Total liabilities	353,615	269,056	2,845,142	4,100,607	7,900,450	727,160	16,196,030	15,325,232
Interest rate gap	3,787,469	1,110,245	538,162	474,953	4,396,276	(105,003)	10,202,102	9,551,872

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.1. Interest rate risk (continued)

The following tables demonstrate the sensitivity of the HBOR to the interest rate risk as of 30 June 2020 and 31 December 2019 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 HBORS's interest rate risk exposure as of 30 June and 31 December 2019 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
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
30 June 2020								
Assets								
Cash on hand and current								
accounts with banks	724,117	-	-	-	-	1,751,845	2,475,962	724,117
Deposits with other banks	131,516					378	131,894	131,516
Loans to financial institutions	159,181	642,241	1,130,675	2,476,022	4,691,065	8,497	9,107,681	8,904,801
Loans to other customers	1,767,770	462,648	1,064,032	2,121,475	7,358,062	199,724	12,973,711	12,096,868
Financial assets at fair value through profit or loss	-	-	-	-	2,064	180,993	183,057	2,064
Financial assets at fair value through other comprehensive income	2,251,549	-	-	-	-	37,178	2,288,727	2,251,549
Other assets	-	-	-	-	-	30,772	30,772	-
Total assets	5,034,133	1,104,889	2,194,707	4,597,497	12,051,191	2,209,387	27,191,804	24,110,915
Liabilities								
Deposits from customers	-	-	-	-	-	370,550	370,550	-
Borrowings	244,810	273,396	1,808,240	4,259,978	9,516,161	44,996	16,147,581	15,966,756
Debt securities issued	-	-	-	-	-	-	-	-
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	151,031	151,031	-
Other liabilities	-	-	-	-	-	341,957	341,957	-
Total liabilities	244,810	273,396	1,808,240	4,259,978	9,516,161	908,534	17,011,119	15,966,756
Interest rate gap	4,789,323	831,493	386,467	337,519	2,535,030	1,300,853	10,180,685	8,144,159

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.1. 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
31 December 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	648,001	-	-	-	-	233,486	881,487	648,001
Deposits with other banks	33,184	520,032	-	-	-	254	553,470	553,216
Loans to financial institutions	146,639	536,191	1,224,864	2,563,039	4,971,304	5,669	9,447,706	9,221,266
Loans to other customers	1,769,376	322,630	2,158,440	2,012,521	7,323,188	113,479	13,699,634	12,908,055
Financial assets at fair value through profit or loss	-	-	-	-	2,234	191,760	193,994	2,234
Financial assets at fair value through other comprehensive income	1,501,265	-	-	-	-	37,376	1,538,641	1,501,265
Other assets	-	-	-	-	-	23,922	23,922	-
Total assets	4,098,465	1,378,853	3,383,304	4,575,560	12,296,726	605,946	26,338,854	24,834,037
Liabilities								
Deposits from customers	-	-	-	-	-	176,769	176,769	-
Borrowings	353,615	269,056	1,730,226	4,100,607	7,900,450	46,499	14,400,453	14,210,316
Debt securities issued	-	-	1,114,916	-	-	43,375	1,158,291	1,114,916
Provisions for guarantees, commitments and other liabilities	-	-	-	-	-	120,631	120,631	-
Other liabilities	-	-	-	-	-	323,247	323,247	-
Total liabilities	353,615	269,056	2,845,142	4,100,607	7,900,450	710,521	16,179,391	15,325,232
Interest rate gap	3,744,850	1,109,797	538,162	474,953	4,396,276	(104,575)	10,159,463	9,508,805

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.1. 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	
	30 June	31 December	30 June	31 December
	2020	2019	2020	2019
	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Fixed interest rate assets	24,164,104	24,877,104	24,110,915	24,834,037
Variable interest rate assets	871,502	898,871	871,502	898,871
Non-interest bearing	2,215,620	622,157	2,209,387	605,946
Total	27,251,226	26,398,132	27,191,804	26,338,854
Liabilities				
Fixed interest rate liabilities	15,966,756	15,325,232	15,966,756	15,325,232
Variable interest rate liabilities	135,829	143,638	135,829	143,638
Non-interest bearing	924,878	727,160	908,534	710,521
Total liabilities	17,027,463	16,196,030	17,011,119	16,179,391

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.1. 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. Jun 30, 2020	Effect on profit Jun 30, 2020	Increase in b. p. Dec 31, 2019	Effect on profit Dec 31, 2019
		HRK '000		HRK '000
EUR	+25	1,508	+6	295
USD	+17	232	+17	468
Currency	Decrease in b. p. Jun 30, 2020	Effect on profit Jun 30, 2020	Decrease in b. p. Dec 31, 2019	Effect on profit Dec 31, 2019
		HRK '000		HRK '000
EUR	-25	(1,508)	-6	(295)
USD	-17	(232)	-17	(468)

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.2. Currency risk

Total assets and total liabilities as of 30 June 2020 and 31 December 2019 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
30 June 2020						
Assets						
Cash on hand and current accounts with banks	19,771	705,458	133	725,362	1,765,456	2,490,818
Deposits with other banks	-	131,894	-	131,894	-	131,894
Loans to financial institutions	-	4,447,167	-	4,447,167	4,660,514	9,107,681
Loans to other customers	354,056	9,029,465	-	9,383,521	3,590,190	12,973,711
Financial assets at fair value through profit or loss	-	52,863	-	52,863	130,194	183,057
Financial assets at fair value through other comprehensive income	-	974,449	-	974,449	1,353,022	2,327,471
Property, plant and equipment and intangible assets	-	-	-	-	48,630	48,630
Foreclosed assets	-	-	-	-	23,606	23,606
Other assets	-	3,846	-	3,846	32,748	36,594
Total assets	373,827	15,345,142	133	15,719,102	11,604,360	27,323,462
Liabilities						
Deposits from customers	17,135	27,018	43	44,196	326,354	370,550
Borrowings	359,264	15,788,317	-	16,147,581	-	16,147,581
Debt securities issued	-	-	-	-	-	-
Provisions for guarantees, commitments and other liabilities	10,553	5,163	982	16,698	134,446	151,144
Other liabilities	203	10,567	53	10,823	347,365	358,188
Total liabilities	387,155	15,831,065	1,078	16,219,298	808,165	17,027,463
Currency gap	(13,328)	(485,923)	(945)	(500,196)	10,796,195	10,295,999

*Amounts linked to a one-way currency clause represent HRK 40,006 thousand.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.2. Currency risk (continued)

Total assets and total liabilities as of 30 June 2020 and 31 December 2019 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 December 2019						
Assets						
Cash on hand and current accounts with banks	14,472	635,803	8	650,283	234,124	884,407
Deposits with other banks	-	553,470	-	553,470	-	553,470
Loans to financial institutions	-	4,596,801	-	4,596,801	4,850,905	9,447,706
Loans to other customers	500,047	8,346,335	-	8,846,382	4,853,252	13,699,634
Financial assets at fair value through profit or loss	-	62,169	-	62,169	141,664	203,833
Financial assets at fair value through other comprehensive income	-	324,388	-	324,388	1,254,422	1,578,810
Debt instruments at amortized cost	-	457	-	457	-	457
Property, plant and equipment and intangible assets	-	-	-	-	48,281	48,281
Foreclosed assets	-	-	-	-	24,198	24,198
Other assets	-	4,484	-	4,484	25,331	29,815
Total assets	514,519	14,523,907	8	15,038,434	11,432,177*	26,470,611
Liabilities						
Deposits from customers	13,158	28,939	536	42,633	134,136	176,769
Borrowings	489,042	13,896,411	-	14,385,453	15,000	14,400,453
Debt securities issued	-	1,158,291	-	1,158,291	-	1,158,291
Provisions for guarantees, commitments and other liabilities	10,069	5,143	1,023	16,235	104,545	120,780
Other liabilities	925	10,294	33	11,252	328,485	339,737
Total liabilities	513,194	15,099,078	1,592	15,613,864	582,166	16,196,030
Currency gap	1,325	(575,171)	(1,584)	(575,430)	10,850,011	10,274,581

*Amounts linked to a one-way currency clause represent HRK 40,105 thousand.

Notes to the Financial Statements which include significant accounting policies
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for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.2. Currency risk (continued)

Total assets and total liabilities as of 30 June 2020 and 31 December 2019 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
30 June 2020						
Assets						
Cash on hand and current accounts with banks	19,771	704,682	133	724,586	1,751,376	2,475,962
Deposits with other banks	-	131,894	-	131,894	-	131,894
Loans to financial institutions	-	4,447,167	-	4,447,167	4,660,514	9,107,681
Loans to other customers	354,056	9,029,465	-	9,383,521	3,590,190	12,973,711
Financial assets at fair value through profit or loss	-	52,863	-	52,863	130,194	183,057
Financial assets at fair value through other comprehensive income	-	964,098	-	964,098	1,324,629	2,288,727
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	47,498	47,498
Foreclosed assets	-	-	-	-	23,606	23,606
Other assets	-	112	-	112	30,660	30,772
Total assets	373,827	15,330,281	133	15,704,241	11,594,791	27,299,032
Liabilities						
Deposits from customers	17,135	27,018	43	44,196	326,354	370,550
Borrowings	359,264	15,788,317	-	16,147,581	-	16,147,581
Debt securities issued	-	-	-	-	-	-
Provisions for guarantees, commitments and other liabilities	10,553	5,163	982	16,698	134,333	151,031
Other liabilities	42	2,181	-	2,223	339,734	341,957
Total liabilities	386,994	15,822,679	1,025	16,210,698	800,421	17,011,119
Currency gap	(13,167)	(492,398)	(892)	(506,457)	10,794,370	10,287,913

* Amounts linked to a one-way currency clause represent HRK 40,006 thousand.

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.2. Currency risk (continued)

Bank	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
31 December 2019	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets						
Cash on hand and current accounts with banks	14,472	633,983	8	648,463	233,024	881,487
Deposits with other banks	-	553,470	-	553,470	-	553,470
Loans to financial institutions	-	4,596,801	-	4,596,801	4,850,905	9,447,706
Loans to other customers	500,047	8,346,335	-	8,846,382	4,853,252	13,699,634
Financial assets at fair value through profit or loss	-	52,330	-	52,330	141,664	193,994
Financial assets at fair value through other comprehensive income	-	316,150	-	316,150	1,222,491	1,538,641
Investments in subsidiaries	-	-	-	-	36,124	36,124
Property, plant and equipment and intangible assets	-	-	-	-	47,309	47,309
Foreclosed assets	-	-	-	-	24,198	24,198
Other assets	-	161	-	161	23,761	23,922
Total assets	514,519	14,499,230	8	15,013,757	11,432,728*	26,446,485
Liabilities						
Deposits from customers	13,158	28,939	536	42,633	134,136	176,769
Borrowings	489,042	13,896,411	-	14,385,453	15,000	14,400,453
Debt securities issued	-	1,158,291	-	1,158,291	-	1,158,291
Provisions for guarantees, commitments and other liabilities	10,069	5,143	1,023	16,235	104,396	120,631
Other liabilities	774	2,056	-	2,830	320,417	323,247
Total liabilities	513,043	15,090,840	1,559	15,605,442	573,949	16,179,391
Currency gap	1,476	(591,610)	(1,551)	(591,685)	10,858,779	10,267,094

* Amounts linked to a one-way currency clause represent HRK 40,105 thousand.

Notes to the Financial Statements which include significant accounting policies
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for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

25. Risk management (continued)

25.5. Market risk (continued)

25.5.2. 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 exchange rates against HRK was used in the foreign currency risk sensitivity analysis, with the other variables remaining stable, in order to assess the hypothetical effect on HBOR's profit as of 30 June 2020.

Volatility of the exchange rate EUR/HRK, determined using the standard deviation method on the changes of the foreign exchange rate EUR/HRK, equalled 1.67% in the previous 12 months.

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

	Change in currency rate Jun 30, 2020 %	Effect on profit Jun 30, 2020 HRK' 000	Change in currency rate Dec 31, 2019 %	Effect on profit Dec 31, 2019 HRK' 000
EUR	+1.67	(5,329)	+1.22	(5,333)
EUR	-1.67	5,374	-1.22	5,428

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

26. Fair value of financial assets and financial liabilities

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

Below is a breakdown of the financial assets at fair value based on IFRS 9 classification on 30 June 2020 and 31 December 2019.

Group	30 June 2020		
	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	-	-	2,064
Investments in investment funds:			
Investments in investment funds at fair value through profit or loss	180,254	-	-
Equity instruments:			
Listed equity instruments:			
Investments in corporate shares	-	-	-
Unlisted equity instruments:			
Investments in corporate shares	-	-	31
Depository receipt - DR	-	-	547
Investment in financial institutions shares	-	161	-
Total financial assets at fair value through profit or loss	180,254	161	2,642
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	1,193,436	-	-
Corporate bonds	977	-	-
Treasury bills of the Ministry of Finance	1,092,602	-	-
Accrued interest	10,442	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	586
Convertible bonds - CB	-	-	2,281
Accrued interest	-	-	364
Total debt instruments	2,297,457	-	3,231
Unlisted equity instruments:			
Investment in shares of foreign legal entities	-	41	-
Shares of foreign financial institutions – EIF	-	26,742	-
Total equity instruments	-	26,783	-
Total financial assets at fair value through other comprehensive income	2,297,457	26,783	3,231

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 Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

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

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

Group	31 December 2019		
	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	-	-	2,234
Investments in investment funds:			
Investments in investment funds at fair value through profit or loss	200,868	-	-
Equity instruments:			
Listed equity instruments:			
Investments in corporate shares	-	-	-
Unlisted equity instruments:			
Investments in corporate shares	-	-	31
Depository receipt - DR	-	-	539
Investment in financial institutions shares	-	161	-
Total financial assets at fair value through profit or loss	200,868	161	2,804
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	1,122,448	-	-
Corporate bonds	1,000	-	-
Treasury bills of the Ministry of Finance	414,788	-	-
Accrued interest	11,232	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	573
Convertible bonds - CB	-	-	2,155
Accrued interest	-	-	369
Total debt instruments	1,549,468	-	3,097
Unlisted equity instruments:			
Investment in shares of foreign legal entities	-	40	-
Shares of foreign financial institutions – EIF	-	26,205	-
Total equity instruments	-	26,245	-
Total financial assets at fair value through other comprehensive income	1,549,468	26,245	3,097

Notes to the Financial Statements which include significant accounting policies
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for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

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

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

Bank	30 June 2020		
	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000
Financial assets at fair value through profit or loss:			
Loans at FVPL:	-	-	2,064
Mezzanine loans			
Investments in investment funds:	180,254	-	-
Investments in investment funds at fair value through profit or loss	-	-	-
Equity instruments:			
Listed equity instruments:			
Investments in companies' shares			
Unlisted equity instruments:			
Investments in companies' shares	-	-	31
Depository receipt - DR	-	161	547
Investment in financial institutions shares	-	-	-
Total financial assets at fair value through profit or loss	180,254	161	2,642
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
Listed debt instruments:			
Bonds of the Republic of Croatia	1,156,080	-	-
Treasury bills of the Ministry of Finance	1,092,602	-	-
Accrued interest	10,031	-	-
Unlisted debt instruments:			
Corporate bonds	-	-	586
Convertible bonds - CB	-	-	2,281
Accrued interest	-	-	364
Total debt instruments	2,258,713	-	3,231
Unlisted equity instruments:			
Investment in shares of foreign legal entities – SWIFT	-	41	-
Shares of foreign financial institutions – EIF	-	26,742	-
Total equity instruments	-	26,783	-
Total financial assets at fair value through other comprehensive income	2,258,713	26,783	3,231

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

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

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

Bank	31 December 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	-	-	2,234
<i>Investments in investment funds:</i>			
Investments in investment funds at fair value through profit or loss	191,029	-	-
Equity instruments:			
<i>Listed equity instruments:</i>			
Investments in companies' shares			
<i>Unlisted equity instruments:</i>			
Investments in companies' shares	-	-	31
Depository receipt - DR	-	-	539
Investment in financial institutions shares	-	161	-
Total financial assets at fair value through profit or loss	191,029	161	2,804
Financial assets at fair value through other comprehensive income:			
Debt instruments:			
<i>Listed debt instruments:</i>			
Bonds of the Republic of Croatia	1,083,749	-	-
Treasury bills of the Ministry of Finance	414,788	-	-
Accrued interest	10,762	-	-
<i>Unlisted debt instruments:</i>			
Corporate bonds	-	-	573
Convertible bonds - CB	-	-	2,155
Accrued interest	-	-	369
Total debt instruments	1,509,299	-	3,097
<i>Unlisted equity instruments:</i>			
Investment in shares of foreign legal entities – SWIFT	-	40	-
Shares of foreign financial institutions – EIF	-	26,205	-
Total equity instruments	-	26,245	-
Total financial assets at fair value through other comprehensive income	1,509,299	26,245	3,097

Notes to the Financial Statements which include significant accounting policies
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for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

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

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

26.1.1. Level 3 - fair value

a) Mezzanine loans

For the assessment of fair value of mezzanine loans, the method of discounting expected future cash flows is used.

Due to their contractual characteristics, mezzanine loans do not pass the SPPI test. Characteristics due to which mezzanine loans do not pass the SPPI test are as follows:

- 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 characteristics of the mezzanine loan, the assessment of fair value of these loans 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 30 June 2020, the market price of ordinary shares of the debtor that the Bank could subscribe amounted to HRK 5,425 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 2,064 thousand, which represents the fair value of the mezzanine loan on 30 June 2020.

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 Financial Statements which include significant accounting policies
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for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

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

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

26.1.1. 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 30 June 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 30 June 2020, 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 10.34%, the bond price would be 39.15%, which would result in an increase in HBOR's generated profits of HRK 14.49 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 14.34%, the bond price would be 37.28%, which would result in a decrease in HBOR's generated profits of HRK 13.96 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 30 June 2020. "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 58.65 thousand.

Notes to the Financial Statements which include significant accounting policies
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(All amounts are expressed in HRK thousand)

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

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

26.1.1. 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 and Bank	Jun 30, 2020 HRK '000	Jun 30, 2019 HRK '000
Balance as at 1 January	2,234	2,045
Decrease in fair value through profit or loss	(170)	(353)
Balance as of 30 June	2,064	1,692

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

Group and Bank	Jun 30, 2020 HRK '000	Jun 30, 2019 HRK '000
Balance as at 1 January	3,097	768
Increase in fair value through other comprehensive income	58	27
Net foreign exchange	81	(5)
Accrued interest	(5)	33
Balance as of 30 June	3,231	823

Notes to the Financial Statements which include significant accounting policies
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(All amounts are expressed in HRK thousand)

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

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

26.1.2. Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by level in the fair value hierarchy into which each fair value measurement is categorised.

Group	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
30 June 2020	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets					
Cash on hand and current accounts with banks	2,490,818	-	-	2,490,818	2,490,818
Deposits with other banks	-	131,894	-	131,894	131,894
Loans to financial institutions	-	-	9,032,464	9,032,464	9,107,681
Loans to other customers	-	-	14,631,248	14,631,248	12,973,711
	2,490,818	131,894	23,663,712	26,286,424	24,704,104
Liabilities					
Deposits from customers	-	370,550	-	370,550	370,550
Borrowings	-	-	17,151,011	17,151,011	16,147,581
Debt securities issued	-	-	-	-	-
	-	370,550	17,151,011	17,521,561	16,518,131
Group					
31 December 2019	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets					
Cash on hand and current accounts with banks	884,407	-	-	884,407	884,407
Deposits with other banks	-	553,470	-	553,470	553,470
Loans to financial institutions	-	-	10,733,369	10,733,369	9,447,706
Loans to other customers	-	-	16,041,117	16,041,117	13,699,634
	884,407	553,470	26,774,486	28,212,363	24,585,217
Liabilities					
Deposits from customers	-	176,769	-	176,769	176,769
Borrowings	-	-	16,315,172	16,315,172	14,400,453
Debt securities issued	-	1,141,506	-	1,141,506	1,158,291
	-	1,318,275	16,315,172	17,633,447	15,735,513

Notes to the Financial Statements which include significant accounting policies
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(All amounts are expressed in HRK thousand)

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

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

26.1.2. Financial instruments not measured at fair value (continued)

Bank	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
30 June 2020	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets					
Cash on hand and current accounts with banks	2,475,962	-	-	2,475,962	2,475,962
Deposits with other banks	-	131,894	-	131,894	131,894
Loans to financial institutions	-	-	9,032,464	9,032,464	9,107,681
Loans to other customers	-	-	14,631,248	14,631,248	12,973,711
	2,475,962	131,894	23,663,712	26,271,568	24,689,248
Liabilities					
Deposits from customers	-	370,550	-	370,550	370,550
Borrowings	-	-	17,151,011	17,151,011	16,147,581
Debt securities issued	-	-	-	-	-
	-	370,550	17,151,011	17,521,561	16,518,131

Bank	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2019	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets					
Cash on hand and current accounts with banks	881,487	-	-	881,487	881,487
Deposits with other banks	-	553,470	-	553,470	553,470
Loans to financial institutions	-	-	10,733,369	10,733,369	9,447,706
Loans to other customers	-	-	16,041,117	16,041,117	13,699,634
	881,487	553,470	26,774,486	28,209,443	24,582,297
Liabilities					
Deposits from customers	-	176,769	-	176,769	176,769
Borrowings	-	-	16,315,172	16,315,172	14,400,453
Debt securities issued	-	1,141,506	-	1,141,506	1,158,291
	-	1,318,275	16,315,172	17,633,447	15,735,513

Notes to the Financial Statements which include significant accounting policies
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for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

27. 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 Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

27. Reporting by segments

30 June 2020	Banking activities HRK '000	Insurance activities HRK '000	Other activities HRK '000	Unallocated HRK '000	Total HRK '000
Net interest income	177,209	558	-	-	177,767
Net fee income	10,122	575	865		11,562
Net income/(expenses) from financial operations	(11,218)	(8)	-	-	(11,226)
Net premiums earned	-	3,480	-	-	3,480
Other income	3,757	15	131	(136)	3,767
Income from operating activities	179,870	4,620	996	(136)	185,350
Operating costs	(70,456)	(2,856)	(767)	136	(73,943)
Impairment loss and provisions	(93,425)	133	(75)	-	(93,367)
Expenses for insured cases	-	(183)	-	-	(183)
Net change in provisions	-	(69)	-	-	(69)
Other expenses	-	(136)	-	-	(136)
Operating expenses	(163,881)	(3,111)	(842)	136	(167,698)
Profit before income tax	15,989	1,509	154	-	17,652
Income tax	-	(229)	-	-	(229)
Profit for the period	15,989	1,280	154	-	17,423
Assets of segment	27,299,032	59,037	2,044	(36,651)	27,323,462
Total assets	27,299,032	59,037	2,044	(36,651)	27,323,462
Liabilities of segment	17,011,119	16,279	91	(26)	17,027,463
Total equity	10,287,913	5,258	1,654	1,174	10,295,999
Total liabilities and total equity	27,299,032	21,537	1,745	1,148	27,323,462

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 Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

27. Reporting by segments (continued)

30 June 2019	Banking activities HRK '000	Insurance activities HRK '000	Other activities HRK '000	Unallocated HRK '000	Total HRK '000
Net interest income	160,817	658	-		161,475
Net fee income	11,206	544	864	-	12,614
Net income/(expenses) from financial operations	9,758	161	8	-	9,927
Net premiums earned	-	2,887	-	-	2,887
Other income	4,221	38	140	(146)	4,253
Income from operating activities	186,002	4,288	1,012	(146)	191,156
Operating costs	(78,393)	(2,872)	(706)	146	(81,825)
Impairment loss and provisions	(30,550)	369	(67)	-	(30,248)
Expenses for insured cases	-	(423)	-	-	(423)
Net change in provisions	-	(914)	-	-	(914)
Other expenses	-	(113)	-	-	(113)
Operating expenses	(108,943)	(3,953)	(773)	146	(113,523)
Profit before income tax	77,059	335	239	-	77,633
Income tax	-	(103)	-	-	(103)
Profit for the period	77,059	232	239	-	77,530
31 December 2019					
Assets of segment	26,446,485	58,967	1,811	(36,652)	26,470,611
Total assets	26,446,485	58,967	1,811	(36,652)	26,470,611
Liabilities of segment	16,179,391	16,504	161	(26)	16,196,030
Total equity	10,267,094	4,963	1,350	1,174	10,274,581
Total liabilities and total equity	26,446,485	21,467	1,511	1,148	26,470,611

Intra-group transactions are presented under "Unallocated".

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020 (continued)

(All amounts are expressed in HRK thousand)

28. 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 30 June 2020 and 31 December 2019.

	Group		Bank	
	30 June	31 December	30 June	31 December
	2020	2019	2020	2019
	HRK '000	HRK '000	HRK '000	HRK '000
Total regulatory capital	10,029,944	10,023,220	10,028,769	10,024,106
Credit risk weighted exposure amount	15,456,507	14,931,756	15,448,849	14,914,038
Credit requirements for operating risk	848,015	848,015	827,833	827,833
Capital requirements for currency risk	328,399	429,307	314,246	429,307
Total capital requirements	16,632,921	16,209,078	16,590,928	16,171,178
	%	%	%	%
Capital adequacy ratio	60.30	61.84	60.45	61.99
	HRK '000	HRK '000	HRK '000	HRK '000
Own funds needed for ensuring capital adequacy according to regulatory requirements	1,995,951	1,945,089	1,990,911	1,940,541

Minimum capital adequacy ratio as of the reporting date, i.e 30 June 2020 was 12% (31 December 2019: 12%).

Notes to the Financial Statements which include significant accounting policies
and other explanations
for the period 1 January - 30 June 2020

(All amounts are expressed in HRK thousand)

29. Subsequent events

29.1. Reconstruction of office building after earthquake

The office building located at Strossmayerov trg 9 in Zagreb is currently not in use due to the consequences of the earthquake, and the project preparation has been contracted for building structure reconstruction.

The preparation of the project is ongoing and will include a project estimate of the costs of repairing the structure and input data for the preparation of the project task for the procurement of the main project for the reconstruction of the building at Strossmayerov trg 9, which will include architectural project and project prepared by other professions. After the main project for the reconstruction of the building has been prepared, an estimate of the costs of performing all designed works will be known.

29.2. Moratorium

After the reporting period, the process of collecting the consent of clients to accept the possibility of extending the moratorium has been ongoing, and, by 31 August 2020, the possibility of extending the moratorium was accepted by 572 clients to whom the loan was approved directly for the total principal amount of HRK 7,392,789 thousand. This figure is expected to be higher after obtaining all consents.

Appendix - Financial Performance of the HKO Group
Statement of Profit or Loss and Other Comprehensive Income
for the period 1 January – 30 June

(All amounts are expressed in HRK thousand)

	Jun 30, 2020 HRK '000	Jun 30, 2019 HRK '000
Premium earned		
Gross premium written	6,021	5,214
Premium impairment allowance originated and reserved on collection	(31)	(28)
Gross outward reinsurance premium	(2,660)	(2,262)
Net premium written	3,330	2,924
Changes in the gross unearned premium reserve	176	105
Changes in the gross unearned premium reserve, reinsurer's share	(26)	(142)
Net premium earned	3,480	2,887
Fee and commission income	1,440	1,408
Net investment income	487	849
Other operating income	10	33
Net income	5,417	5,177
Gross expense for returned premiums	(267)	(210)
Reinsurer's share	131	98
Gross reserve for returned premiums	(81)	(229)
Reinsurer's share	40	103
Net expense and reserve for returned premiums	(177)	(238)
Claims incurred	(198)	(603)
Claims incurred, reinsurer's share	15	179
Change in the claims provision	(243)	(527)
Change in the claims provision, reinsurer's share	215	(261)
Net claims incurred	(211)	(1,212)
Marketing and provision expenses	(260)	(435)
Administrative expenses	(3,154)	(2,888)
Other operating expenses	(15)	192
Net exchange differences other than those on financial instruments	63	(22)
Profit before income tax	1,663	574
Income tax	(229)	(103)
Profit for the period	1,434	471
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	1,069	1,515
Decrease in the fair value of financial assets available for sale	(1,834)	(409)
Transfer of realized gains on asset available for sale to profit or loss	(253)	-
Deferred tax	183	(237)
Total items that may be reclassified subsequently to profit or loss:	(835)	869
Other comprehensive income after income tax	(835)	869
Total comprehensive income after income tax	599	1,340
Attributable to:		
Equity holder of the parent	599	1,340

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
Statement of Financial Position as of
as of

(All amounts are expressed in HRK thousand)

	Jun 30, 2020 HRK '000	Dec 31, 2019 HRK '000
Assets		
Non-current assets		
Property and equipment	872	839
Intangible assets	259	134
Held to maturity investments	-	457
Deferred tax	324	-
Total non-current assets	1,455	1,430
Current assets		
Investments available for sale	38,744	40,169
Investments at fair value through profit or loss	-	9,839
Deposits with banks	-	-
Receivables from insurance operations	5,026	5,331
Other receivables	474	563
Cash and cash equivalents	14,856	2,919
Total current assets	59,100	58,821
Total assets	60,555	60,251
Equity and liabilities		
Equity		
Share capital	37,500	37,500
Retained earnings and reserves	1,749	2,501
Other reserves	3,528	4,363
Profit for the year	1,434	(752)
Total equity	44,211	43,612
Technical provisions		
Gross technical provisions	18,359	18,211
Technical provisions, reinsurer's share	(8,392)	(8,163)
	9,967	10,048
Current liabilities		
Liabilities from insurance operations	2,979	3,291
Other liabilities	3,398	3,300
Total liabilities	6,377	6,591
Total equity and liabilities	60,555	60,251

Appendix - Financial Performance of the HKO Group

Statement of Cash Flows

for the period 1 January – 30 June

(All amounts are expressed in HRK thousand)

	Jun 30, 2020 HRK '000	Jun 30, 2019 HRK '000
Operating activities		
Profit before income tax	1,663	574
<i>Adjustments to reconcile to net cash from and used in operating activities:</i>		
Depreciation	191	17
Impairment gain/loss and provisions	(28)	(273)
Income tax	-	(103)
Accrued interest	69	4
<i>Operating profit before working capital changes</i>	<i>1,895</i>	<i>219</i>
Changes in operating assets and liabilities:		
Net decrease in deposits with other banks	-	-
Net realized (gain)/loss on assets available for sale	279	-
Decrease of discount in assets available for sale and assets held to maturity	64	102
Net gain on financial assets at fair value through profit or loss	70	(229)
Premium receivables	274	(183)
Net decrease/(increase) in other assets	129	(81)
Net decrease of assets and liabilities from insurance operations	(312)	1,014
Net increase in technical provisions	(81)	951
Net increase in other liabilities	(173)	63
Net cash provided/(used in) operating activities	2,145	1,856
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	9,747	-
Net purchase of assets available for sale	(3,044)	-
Net sale of assets available for sale	3,346	-
Purchase of assets held to maturity	-	-
Collection of assets held to maturity when due	448	-
Net purchase of property, plant and equipment and intangible assets	(224)	(120)
Net cash (used in)/provided investment activities	10,273	(120)
Effect of foreign currency to cash and cash equivalents		
Net foreign exchange	(337)	66
Net effect	(337)	66
Other adjustments	(125)	-
Net (decrease)/increase in cash and cash equivalents	11,956	1,802
Balance as of 1 January	2,924	3,363
Net (decrease)/increase in cash	12,081	1,802
Balance as of 30 June	14,880	5,165

Appendix - Financial Performance of the HKO Group
Statement of Changes in Equity
for the period 1 January – 30 June
(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 2019	37,500	2,237	3,049	481	43,267	43,267
Profit for the period	-	-	-	471	471	471
Other comprehensive income	-	-	869	-	869	869
Total comprehensive income	-	-	869	471	1,340	1,340
Transfer of profit 2018 to retained earnings	-	481	-	(481)	-	-
Other adjustments	-	(217)	-	172	(45)	(45)
Balance as of 30 June 2019	37,500	2,501	3,918	643	44,562	44,562
Balance as of 1 January 2020	37,500	2,501	4,363	(752)	43,612	43,612
Profit for the period	-	-	-	1,434	1,434	1,434
Other comprehensive income	-	-	(835)	-	(835)	(835)
Total comprehensive income	-	-	(835)	1,434	599	599
Transfer of profit 2019 to retained earnings	-	(752)	-	752	-	-
Balance as of 30 June 2020	37,500	1,749	3,528	1,434	44,211	44,211